AEA

Global environmental challenges: sustainable solutions

AEA Technology Group plc
Annual Report & Accounts 2012

AEA Annual Report and Accounts 2012

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Who we are and what we do

Through decades of experience in both Europe and the US, AEA has developed and maintained a reputation for authoritative and independent technical expertise to underpin policy development, implementation and evaluation. Our technical excellence and breadth of capability is delivered by internationally respected experts in the fields of energy and climate change, air quality, sustainable transport, waste and resource efficiency, economics and both data and information management. These experts support public and private sectors, as well as international agencies, with the joined-up capabilities needed to address today's most pressing and interacting challenges of climate change and energy security; air quality; water and resource scarcity; competitiveness; wealth creation and sustainability.

AEA has a proven track record of providing ground-breaking expertise to the UK Government, the European Commission, international agencies and major corporations for more than 40 years from our UK base. In August 2008, AEA enhanced its environmental and data management capability with the acquisition of Washington based Project Performance Corporation (PPC). This was a key milestone in our strategy to expand into the US, to extend our environmental capability, and to gain valuable information and data management expertise. PPC has over 25 years of experience delivering major data management contracts to the US Government and Fortune 500 clients, as well as an expanding environmental consultancy capability.

Eastern Research Group Inc (ERG), based in Boston, Massachusetts, was acquired in November 2010, further broadening and deepening our capability and US market reach. ERG has a rich heritage of technical excellence in the environment, energy and economics fields. It is the major provider of environmental and energy consultancy services to the US Environmental Protection Agency (EPA) and it has a strong track record with many US Government departments. The addition of PPC and ERG skill sets to the AEA Group provides our clients with an enhanced and end-to-end service aligned to today's multifaceted environmental challenges.

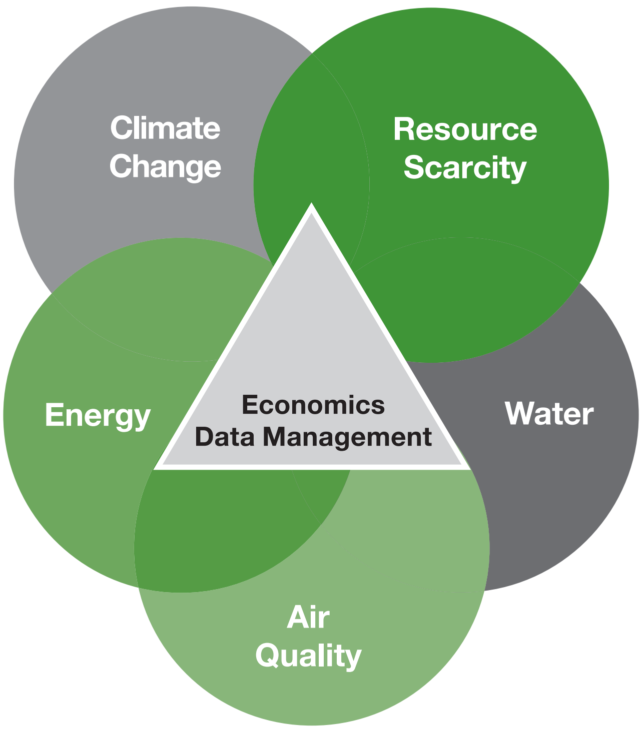
The combination of European and US expertise now enables AEA to provide its global clients with comprehensive technical, policy and economic solutions. We continue to have strong relationships with the UK and US Governments, international agencies, and FTSE and Fortune 500 organisations. We employ circa 1,000 consultants at our 20 locations across the UK and North America.

Business model

Sustainable solutions require an appreciation of the complex inter-relationships between economic, social and environmental drivers. Through deep and broad expertise, we develop integrated solutions to complex environmental and sustainability issues. Increasingly, the solutions we provide utilise a combination of the environmental specialisms that we possess, often supported through core skills in economics and data management.

Our areas of specialism

AEA maintains a leading position supporting the UK, US and European Governments, international agencies and the private sector in:



Our expertise

AEA helps organisations respond to their environmental challenges by bringing together our broad range of environmental expertise, across energy and climate change, air and environmental quality, sustainable transport, waste and resources and chemical risk management services. The solutions we provide cover:

- Policy development, implementation and evaluation
- Expert technical advice and support
- Communications and engagement strategy and implementation
- Knowledge sharing and information management
- Analytics and data management
- Economic appraisal

Our strategy

The recent economic crisis and recovery has put a focus on the economics of sustainable development, green jobs and wealth creation. There is a growing recognition of the interactions and reinforcement of environmental issues and policies (e.g. climate change, water, air quality, energy security) and the need for solutions that address several issues at once.

The UK Government is moving away from funding large programmes aimed at supporting behaviour change and it is increasingly relying on the private sector to respond to regulatory and fiscal measures that are now in place. Developed countries are also looking at both the monitoring of, and support mechanisms for, developing countries' sustainable development.

Our strategy is to focus on assisting governments and international agencies address today's most pressing and interacting challenges:

- Climate Change and Energy Security
- Air Quality
- Water and Resource Scarcity
- Competitiveness, Wealth Creation and Sustainability

We will expand our work for other governments, international agencies and increasingly commercial enterprises via offerings based on our UK and US experience, where our government based experience and insights gives us a competitive edge.

We will look to develop a more assertive business development culture through a combination of targeted incentivisation and external recruitment and tackle cost reduction opportunities more effectively than in the past.

Group overview

Financial Summary

- **Order intake £134.1 million**
  (2011: £80.9 million)
- **Revenue £110.3 million**
  (2011: £113.7 million)
- **Adjusted operating profit £4.1 million**
  (2011: £8.8 million) [1]
- **Operating loss £35.4 million**
  (2011: loss £5.9 million)
- **Adjusted profit before tax £1.4 million**
  (2011: profit £7.0 million) [1]
- **Loss before tax £40.1 million**
  (2011: loss £9.7 million)
- **Net debt £36.4 million**
  (2011: £28.3 million)
- **Net liabilities in respect of retirement benefits £168.5 million**
  (2011: £121.8 million)

[1]The reconciliation of adjusted operating profit and adjusted profit before tax is shown on the face of the Consolidated income statement on page 39

Financial Position

- On 18 July, the Board announced it would consider all strategic options to realise value and can report that this process is now underway, including ongoing discussions with a number of interested parties. However, as previously announced, the Board does not envisage there will be offers for the share capital of the Company and the Board expects that such options will result in little or no value for shareholders.
- Lloyds TSB Bank plc (the "Bank") will continue to provide short-term support while the Group executes its financial restructuring plan.
- The Bank has given an agreement in principle on the terms for a new money facility to provide additional short term funding of £5.0 million on a secured basis through to end of October 2012.
- The Trustee of the Group's pension scheme has agreed to defer all pension payments otherwise due to assist in the Group maintaining appropriate liquidity whilst the strategic review is undertaken.

Operational Summary

- Despite a challenging economic backdrop, the energy and environmental consulting businesses in both the UK and US delivered results in line with expectations.
- PPC has suffered from failure to secure expected new contracts together with some existing contract losses.
- New business plan with stronger commercial focus is being implemented by John Lowry.
- Plan supported by a strengthening and change of management in the US businesses.

Chairman's statement

It has been a very challenging year for AEA. Having acquired ERG in November 2010 the Group was seeking to grow in the US markets and further shift the focus of the Group away from what had been very difficult markets in the UK. However, despite a broadly on track performance from the UK and US energy and environmental consulting businesses, our failure to secure certain contracts, combined with the loss of others in the IT consulting business based in Washington has, despite an improved order intake, resulted in a significant, previously announced, reduction in the expected level of adjusted operating profit.

Capital structure and funding

Since the date of the profit warning in January, Lloyds TSB Bank plc (the "Bank") has remained supportive of the Group's activities while the Board, together with its advisers, prepared a new strategy and business plan. During this period, the Company sought to reach agreement with the Bank as to revised facilities, including amended covenants for 2013. At the same time the Company held detailed discussions with the trustee of the Group's defined benefit pension scheme (the "Trustee") with a view to addressing the significant deficit of the scheme and the Group's on-going funding of these retirement benefit obligations.

The impact of the significantly reduced profit level and its effect on our bank facilities and covenants, combined with the increase in the level of the pension deficit, has meant that the Board has, with the Bank and Trustee, been exploring ways to match the level of Group debt and pension obligations to the level of profit and cash flow being generated by the Group's businesses.

The new strategy and business plan has now been completed and discussed with both the Bank and Trustee. The new strategy and expected operating performance sets out a positive way forward for the Group and its employees, and the actions already taken by the Board to improve operational efficiency have started to deliver results. However, as announced on 18 July 2012, despite constructive discussions with the Bank and Trustee, the Board has been unable to achieve a long term solution to the existing levels of net debt and the significant on-going funding costs of the Group's retirement benefit obligations.

As a result, with the support of the Trustee and the Bank, including short term financial support, the Board decided to consider all strategic options to realise value and can report that this process is now underway, including ongoing discussions with a number of interested parties. However, as previously announced, the Board does not envisage there will be offers for the share capital of the Company and the Board expects that such options will result in little or no value for shareholders.

In order to support the Group whilst these options are pursued, the Bank has given an agreement in principle on the terms for a new money facility to provide additional short term funding of £5.0 million on a secured basis through to the end of October 2012. Entering into a formal facility agreement in respect of the additional £5.0 million will be conditional upon the Group providing security and an ongoing liquidity covenant.

Going Concern

Additional short term funding is expected to be provided to allow the Group to realise value through a sale of all or part of the Group's businesses and assets which it is hoped will enable the Group to agree a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme in a solvent manner.

The Board believes that preparing the Financial Statements on the going concern basis remains appropriate as it is actively pursuing a sale of all or part of the Group's businesses and assets, and believe this will return sufficient value to enable a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme in a solvent manner. In addition, the Board believes it will be able to finalise the agreement of the £5.0 million short term facility, to meet short term cash forecasts and operate within the facilities expected to be provided by the Bank and comply with any related covenants and that it will be able to execute a sale of all or part of the Group's businesses and assets during the period in which facilities are provided by the Bank.

However there can be no certainty that a sale process can be completed in the short term that will enable the discharge of liabilities to the Bank and the pension scheme. Should the Group not maintain the ongoing support of the Bank and pension scheme and execute a financial restructuring plan that provides an appropriate solution for the Bank and pension scheme, and meet its forecast cash requirements it may not have sufficient funds to remain in operational existence. These circumstances indicate the existence of material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. The Financial Statements do not include any adjustment to the value of balance sheet assets or provision for further liabilities, which would result should the going concern basis not be appropriate.

Chairman's statement (continued)

Results highlights

Revenue from continuing operations was £110.3 million (2011: £113.7 million). Order intake was improved at £134.1 million compared to £80.9 million in 2011, although this includes the full year impact of order intake in ERG of £43.3 million. Adjusted operating profit fell to £4.1 million from £8.8 million in the previous year as the significant impact of the decline in the IT business was felt. Europe was ahead at the adjusted operating profit level year on year. The statutory operating loss was £35.4 million compared to a loss of £5.9 million the year before reflecting an impairment to goodwill on previously acquired businesses of £28.8 million, costs of £4.4 million to restructure the business and a £4.6 million provision to cover the costs of onerous property leases.

Dividend

The Directors are not proposing that a dividend is paid.

Board

Following Andrew McCree's resignation in November 2011, John Lowry was appointed to the Board as Interim CEO in November 2011.

On 16 July 2012, Tim Robinson resigned as Non-Executive Director. Tim Robinson is CEO of Talaris which has recently been the subject of a take-over and he has left AEA to devote his time to the integration of Talaris with the new parent company.

People

The difficult trading conditions have made this a challenging year for all our employees. Nevertheless, I am extremely grateful to them for their hard work, resilience and encouragement.

Outlook

The operational strategy for an improved future is now in place and execution is in line with plan.

Despite a robust business plan and the underlying strength and expertise of the Group's employees, the business has been overwhelmed by the growing pension liability.

Going forward, the Board remains cautious in light of the challenging international trading conditions and material uncertainty over the future funding requirements of the Group.

Dr Paul Golby CBE

Chairman

Business and performance review

Review of the business

The last twelve months has been a difficult period for AEA and its shareholders.

Following the acquisition of ERG in November 2010 the Group became a leading technical advisor to the US and UK Governments in energy, sustainability, emissions and waste.

However, continued spending cuts and tightened fiscal policy from both our principal customers has meant that the strategic vision has been more difficult to execute than previously expected.

Despite the challenging backdrop, the energy and environmental consulting businesses on both sides of the Atlantic were able to achieve results in line with expectations, through a combination of new project wins and a firm control of costs. However, the Washington based IT business suffered from a failure to win a number of contracts that had been expected to be won and some contract losses. The impact of these on the Group as a whole has been significant, leading to profit warnings in both November 2011 and January 2012.

Future development of the business

Following these trading difficulties, John Lowry, who was appointed interim CEO last November, has led the Senior Executive Management Team in a root and branch review of the business to determine the best way forward for the Group.

The fundamental strategy of the business based upon consulting in areas of deep domain knowledge, experience and reputation remains unchanged.

However to achieve the best results from these strengths will require a very different method of execution. The new strategy and business plan has been developed by the newly formed AEA Group Executive which is comprised of the CEOs and CFOs of the operating companies and the CEO and CFO of the Group, with the following objectives:

- Revenue growth will be maximized by the recruitment of senior personnel around whom a more assertive business development culture will be developed.
- Business will be developed in new market areas adjacent to our existing areas of expertise which have characteristics that demand our existing skills and experience.
- Target market sectors will be expanded to include new geographic territories where we can leverage our reputation with US and UK development agencies.
- Work in commercial sectors will be expanded where there is no conflict of interest with government sector work.
- Cost reduction opportunities continue to be pursued across all aspects of the Group's operations and there have been some notable successes already.

Operational developments

- Management at PPC, our Washington based business, has been improved and, under the leadership of a new CEO and CFO, this business is steadily improving.
- At ERG, our Boston based business the former owner has now left the business after a period of handover and we are seeking a new CEO and CFO.
- Overall, despite the necessary operational change that is taking place, the commitment of our employees remains strong.

Business wins

Despite the challenges in the market, order intake grew to £134.1 million from £80.9 million in the previous year, although this includes the full year impact of ERG of £43.3 million.

Notable project wins include a framework agreement to support the US Environmental Protection Agency ("EPA") with its development of greenhouse gas emissions legislation (which was won with considerable support from the European operations) and a framework agreement to support the EPA and other members of a high-level Task Force in the development of the restoration strategy for the Gulf of Mexico. The Task Force delivered the final strategy to President Barack Obama in December 2011.

ERG, supported by PPC, was awarded a contract for the US Department of Energy ("DOE") Building Technologies Program Support which will utilise a broad range of the Group's capabilities: programme design and implementation; data management, web design and technology services; market research; partnership development; regulatory support and acquisition and life cycle management for the DOE's Better Buildings Neighborhood Program.

AEA Europe won a rebid to produce the annual UK Inventory of Air Pollutant Emissions, including greenhouse gases, which is used for reporting under international treaties and led a consortium with ICLEI to win an 18 month project to determine how European cities can and should adapt to climate change.

These high profile wins clearly demonstrate the underlying strength and expertise of the Group's technical consulting skills.

Financial performance

The Group has two reportable segments, being Europe and the US. The US constitutes two operating segments being PPC and ERG which both provide a similar consulting service, operate in a similar market and both have the US Government as the primary customer. Due to these similar economic characteristics they are amalgamated into one reportable segment. ERG was acquired in November 2010 and contributed to the performance of the Group in the prior year only for a period of 5 months. For that reason, the analysis that follows will include where relevant identification of the impact of ERG to assist in understanding the financial performance of the reportable segments.

Total order intake was £134.1 million (2011: £80.9 million).

US operations order intake was £86.7 million (2011: £49.7 million), with a full year of ERG contributing orders of £43.3 million. PPC order intake increased by 30%, which reflects a greater degree of budget certainty within the US Government sector in the second half of the financial year. In Europe order intake was £47.4 million (2011: £31.2 million), an increase that reflected Europe's strong competitive edge that secured major wins within the UK public sector and a 28% increase in order intake from the international public sector.

Total Group revenue for the year was £110.3 million (2011: £113.7 million). In Europe the revenue was £39.0 million (2011: £54.7 million), which reflected the anticipated UK Government budget cuts and also reductions in Government programmes that led to a drop in subcontractor through costs within revenue. In the US revenue in the year was £71.3 million (2011: £59.0 million), an increase of 21%, with ERG contributing revenue of £37.6 million, compared to £15.4 million in the five months post acquisition in 2010/11. PPC revenue was £33.7 million (2011: £43.6 million) due to the reduced spending by the US Government, which resulted in lower revenue in the second half of the year following lower than expected orders.

Amortisation of acquired intangibles, impairment of goodwill and certain other significant items are included within operating profit. In order to give a clearer analysis of the underlying operating performance of the Group these items have been excluded to derive the adjusted operating profit figures. The significant items relate mainly to the impairment of goodwill (£28.8 million), costs of restructuring and redundancy during the year (£4.4 million) and, having reviewed the properties across the Group in light of the Group's revised forecasts, the provision for onerous property lease costs (£4.6 million).

The costs of restructuring and redundancy include:

- redundancy programmes and restructuring and redundancy of Group senior management teams in the UK and US, including recruitment fees associated with Executive Board members and Senior Management in the US (£1.9 million);
- professional advice in respect of restructuring debt and pension liabilities (£1.8 million);
- restructuring US IT operational activities (£0.4 million); and
- other minor restructuring costs.

The adjusting significant items are shown below the Consolidated income statement on page 39.

The adjusted operating profit in the year was £4.1 million (2011: £8.8 million). The result reflects the lower organic revenue within the US, which reduced US adjusted operating profit from £7.2 million to £1.7 million, a drop in organic adjusted operating profit of £7.0 million, offset partially by non-organic growth in adjusted operating profit related to the acquisition of ERG in 2010 of £1.7 million. This has resulted in the appointment of new management and a programme of cost reductions that will align the cost base with the anticipated future revenue activity and make the business more competitive in the current business environment. Europe mitigated the expected fall in revenue with targeted and pre emptive cost savings in the previous financial year, which continued into the current financial year.

Net finance costs were £4.7 million (2011: £3.9 million) including interest on debt facilities of £2.5 million (2011: £1.7 million), which was up from 2010/11 due to higher levels of debt resulting from the lower revenues generated by PPC in the year and a higher margin following the renegotiation of the banking facility in September 2011. Net pension finance costs were £2.0 million (2011: £2.0 million).

The overall impact of tax on the Group was a charge of £0.3 million (2011: £4.3 million). Taxable profits of AEA Technology plc are largely offset by brought forward losses in the UK. The tax charge arises from deferred income tax movements of £0.3 million (2011: £3.4 million), overseas income tax of £nil (2011: £1.0 million) and a current tax charge of £nil (2011: credit £0.1 million). As at 31 March 2012 the recognised net deferred income tax asset was £0.8 million (2011: asset £1.1 million). The Group has an unrecognised deferred income tax asset of £68.8 million (2011: £56.5 million). The three operating companies of the Group operate in the UK and the US, where the statutory tax rates are 26% and 34% respectively.

The loss for the year attributable to owners of the Company was £40.4 million (2011: £14.0 million). This loss was driven largely by the increase in significant items of £24.8 million, which includes impairment losses on goodwill of £28.8 million offset partially by reductions year on year of £4.5 million in restructuring , acquisition and onerous property lease costs. The adjusted loss attributable to the owners of the Company excludes the impact of the significant items described above and, additionally, the net finance costs of £2.0 million (2011: £2.0 million) on the defined benefit pension scheme. Adjusted loss attributable to the owners of the Company, per note 12 was £0.7 million (2011: profit £0.4 million). This movement is a result of the fall in adjusted operating profit partially offset by a reduction in the tax charge to £0.3 million (2011: £4.3 million).

The adjusted earnings per share, calculated using the adjusted loss attributable to the owners of the Company, was 0.0p (2011: 0.0p). Basic earnings per share was a loss of 2.8p (2011: loss 1.2p) as a result of both the increase in the weighted average number of Ordinary shares in issue and the loss attributable to owners of the Company. The Group has dilutive Ordinary shares from share options, although due to the loss in the year to 31 March 2012 there remains no dilution resulting from the share options.

Cash flows in the year

The net cash flow generated from business operations of £3.6 million (2011: £10.3 million) has been used to fund various significant items, principally the costs of restructuring and redundancy discussed above and as shown in the 'Statement of movement in net debt – alternative performance measures' on page 45, resulting in cash used in operations of £4.3 million (2011: £3.9 million). In Europe management have continued to focus on active management of working capital, which resulted in cash generated from business operations of £4.4 million (2011: £4.4 million). Lower profits in the US resulted in cash generated from business operations of £3.3 million (2011: £8.6 million). Within the Corporate centre the impact of cash expenditure on restructuring increased outflows to £4.1 million in the financial year (2011: £2.7 million).

Overall net debt increased from £28.3 million to £36.4 million.

Financial position

Banking facilities and net debt

AEA has a three year bank facility expiring in September 2014, which includes a £43.0 million (2011: £39.0 million) revolving credit facility (including an overdraft facility of £7.0 million) to manage periods of working capital fluctuation and a £4.0 million bonding facility to support the obligations of members of the Group arising in the ordinary course of business. Following the year end, the Group has obtained the Bank's agreement in principle on the terms for a new money facility to provide an additional short term facility of £5.0 million on a secured basis through to the end of October 2012. Entering into a formal facility agreement will be conditional upon the Group providing security and an ongoing liquidity covenant.

The balance of net debt is at a low point at the end of March each year due to the seasonality of cash flows but historically it is at a peak at the end of December, January, and February.

As disclosed in note 2 these banking facilities are not considered sufficient to cover the Group's anticipated funding requirements for the foreseeable future. The short term funding has been provided to allow the Group to consider all strategic options to realise value, including through a sale of all or part of its businesses and assets, which it is hoped will enable the Group to agree a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme.

Net debt at 31 March 2012 was £36.4 million (2011: £28.3 million). The detailed analysis of the Group's borrowings is shown in note 24 to the Financial Statements.

Capital structure

The Company's authorised and issued share capital as at 31 March 2012, together with details of shares issued during the year are set out in note 20 to the Financial Statements. Each Ordinary share carries one vote.

At 31 March 2012 the Group's deficit on net shareholder funds amounted to £157.3 million (2011: £70.1 million).

Dividends and dividend policy

The Board is not recommending the payment of a dividend in respect of the year ended 31 March 2012 (2011: £nil).

Share price and market capitalisation

The closing share price of the Group on 31 March 2012 was 0.27p (2011: 4.34p) and market capitalisation of the Group was £3.9 million (2011: £63.1 million). The high and low prices during the year were 5.00p and 0.18p respectively.

Pensions

The Group assesses pension scheme funding with reference to actuarial valuations and for reporting purposes uses IAS 19. Under IAS 19 the Group's post retirement benefit net liability was £168.5 million at 31 March 2012 (2011: £121.8 million). The increase in the net liability primarily resulted from a reduction in the discount rate, which dropped to 4.8% (31 March 2011 at 5.6%). AEA Technology plc agreed a schedule of contributions with the Trustee of the AEA Technology Pension Scheme (the "Scheme") in June 2009, which are agreed payments of £2.4 million per year commencing July 2010, increasing to £6.0 million per year from July 2012 through to April 2029. This has been confirmed by the Pensions Regulator. The Company has been in ongoing discussions to agree a revised schedule of contributions with the Trustee. These discussions have not yet produced an agreed outcome and the discussions continue. As outlined in note 2 the Trustee have agreed a short term deferment of pension contributions.

Accounting policies

A description of the principal accounting policies appears in note 2 to the Financial Statements. The policies followed are in accordance with IFRS as adopted by the EU. The preparation of the Financial Statements conforming with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Any revisions to estimates are recognised prospectively.

The accounting policies and areas that require the most significant estimates and judgments to be used in the preparation of the Financial Statements are in relation to assessment of provisions, contract accounting and defined benefit pension schemes. Further information in respect of these critical accounting estimates and judgments, including an analysis of how various alternative assumptions or outcomes would have an impact, is provided in note 3 to the Financial Statements.

Treasury policies and objectives

The Group's finance team manages and monitors external funding and financial risks in support of the CFO who operates within written policies approved by the Board and within the internal control framework.

The Group uses various financial instruments in order to manage the exposures that arise in its business operations as a result of movements in financial markets. A natural hedge is maintained against investment in US activities through maintaining a US dollar denominated portion of the Group's borrowings. Swap contracts are maintained to minimise risk of interest rate variability and such derivatives are valued appropriately in the balance sheet. The Group does not undertake speculative foreign exchange or interest rate dealings for which there is no underlying exposure. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. All treasury activities are focused on the management of risk. The main risks arising from the Group's financial instruments are market risk (including foreign exchange risk and cash flow and interest rate risk), credit risk and liquidity risk. The Group's exposures to and management of each of these risks, along with sensitivities, are described in detail in note 4 to the Financial Statements.

Entities within the Group are required by the Group's treasury function to maintain and regularly update detailed cash forecasting models. The treasury function supports the cash flow needs of the underlying businesses and maintains financial flexibility through utilising the available funds under the Group's revolving credit facility (note 24 to the Financial Statements). As at 31 March 2012 £2.9 million (2011: £6.7 million) of this revolving credit facility remains unutilised. However, as noted in the Chairman's Statement and further disclosed in note 2, there exist material uncertainties around the sufficiency of headroom under the existing facility and the nature and availability of future facilities. The Group's banking facilities are described in detail in note 24 to the Financial Statements.

There have been no significant changes in the Group's policies in the last year.

Net finance costs

Changing finance costs have a significant impact on AEA's profits. There are two main elements to finance costs: interest expense in respect of bank borrowings (impacting the Group's cash flow) and net interest expense on AEA Technology plc's defined benefit pension liability (not directly impacting the Group's cash flow).

The interest expense on bank borrowings will fluctuate in line with the level of borrowings and with changes in interest rates. The interest rate risk is reduced through the use of interest rate swaps. The discussion of AEA's approach to cash flow and interest rate risk is included in note 4 to the Financial Statements.

The net interest expense in respect of the defined benefit pension liability will fluctuate in line with market conditions and changing yields on corporate bonds. Note 26 to the Financial Statements details the assumptions used in calculating the pension liability and the sensitivity analysis on changes to the key assumptions.

Outstanding legacy issues

The Group has residual issues relating to divested and closed businesses. Settlement of such issues at amounts differing to the estimates provided for will have an impact on the Group's future cash flows and net borrowings requirement. The risks and uncertainties associated with these issues are discussed in the section entitled Risks and uncertainties.

Significant progress continues to be made in reducing the exposure on residual issues during the year and this will continue to be key area of focus in the new financial year.

Key supplier relationships

The top ten suppliers accounted for 20% of total Group procurement in the year and no single supplier accounted for more than 4% of total Group procurement. The Group is therefore not dependent on any single key supplier for its procurement requirement.

Key customer relationships

The key customers for the Group are the UK and US Governments, which combined account for 67% of Group revenue (2011: 65%).

Corporate responsibilities

The Directors have put in place effective systems for managing significant risks, which include taking into account Social, Environmental and Ethical (SEE) issues.

Corporate Responsibility (CR) is an important part of how we operate and engage with our employees, our local communities and the environment. We are committed to demonstrating our ethical approach to business and stakeholders and achieving an appropriate balance between interests. The Board reviews SEE matters regularly as part of its wider annual review of risks, including monitoring Group performance through annual reports on health and safety, environmental management performance, and through quarterly performance statistics and indicators. John Lowry, Interim CEO, has Board level responsibility for all SEE matters.

The Board ensures that there is a robust system for managing risks where relevant and managing performance across all areas. Annual programmes and targets are set by the Board, who review CR aspects and performance through quarterly reports. This is underpinned by policies and procedures that define clear standards and expectations across the Group. These policies and procedures form part of the integrated Quality Management System (QMS). Within the European Operation the QMS is audited and verified externally by Lloyds Register Quality Assurance. In 2011, AEA has achieved its three year re-accreditation for ISO 9001 (Quality Management System) and ISO 14001(Environmental Management System).

In addition to this the Group has an Information Security Programme that manages all security aspects of data storage, dissemination, and transmission. The Information Security Programme adheres to UK and US Government regulations along with industry best practices, to include ISO 27001, FISMA, and the Data Protection Act. We are committed to implementing data management arrangements that continue to meet customer requirements.

AEA's policies and procedures have been reviewed and updated to ensure compliance with the UK Bribery Act.

Environment

Environmental performance across AEA continues to be assessed against Board approved targets and reported to the management teams on a monthly basis. During the year no environmental incidents occurred. Data collection has improved, with data now available across all key areas. Further efforts are being made to ensure provision of this data is in a consistent format. This improved reporting structure ensures a more immediate response to changes in trends is now possible if required.

The targets for monitoring environmental performance are set at Group level and transcribed for sites, with new site champions responsible for challenging their colleagues on meeting these locally focussed targets.

The Business Continuity Plans, which cover the response the company (both Europe and the US) will make to significant environmental incidents, have been updated to ensure they remain applicable and relevant.

BCE

AEA remains one of the main sponsors of the "Business Commitment to the Environment" Awards Scheme (http://www.bceawards.org/) recognising organisations which meet the commercial demands of the present, without compromising the environment for future generations. AEA's support includes specific sponsorship of the Management for Resource Efficiency Premier Award.

Community involvement

We believe it is important to make a contribution towards our local and global community, not only through our advice, services and products but also through our own actions.

This year across the Group we are proud to have supported:

Renewable World, a charity which works to tackle poverty through supporting renewable energy schemes in remote, off-grid communities for the last two years. This includes a donation to support Renewable World's projects in lieu of sending Christmas cards.

Fone Twigs, a not-for-profit organisation specialising in recycling old mobile phones with the proceeds utilised to support tree planting projects.

PPC's annual food drive, which provided more than 12,000 pounds of food and more than $800 in cash to the Capital Area Food Bank to feed hungry families across the Washington DC area.

PPC supported the Homestretch organisation, whose mission is to enable homeless families with children in Northern Virginia to attain permanent housing and self-sufficiency. In addition the employees supported the environmental education and stewardship organisation Newton Marasco Foundation through supplying teaching aids, book reviews and general assistance throughout the year with their educational programs on energy and the environment.

PPC also supported the American Cancer Society by participating in the local Relay for Life fundraiser.

The Group donated £17,000 (2011: £33,250) plus payments in kind for charitable purposes. PPC's support of the Newton Marasco Foundation above was £16,000 of the total donations made during the period. The Group's policy is not to make donations to political parties and none were made during the year.

Health and Safety

The Group adopts a proactive approach to the management of health, safety, and the environment. The policy, set by the Board, extends beyond compliance with legislation, and ensures that the way AEA's employees work reduces risk of harm to a minimum. We also seek to achieve continuous improvement against the stated goal of excellence. Our performance with only one lost time (non reportable) incident demonstrates the success of this approach.

This year, the European business was awarded the Royal Society for the Prevention of Accidents (RoSPA) President's Medal for good safety performance for the tenth consecutive year.

AEA Group is registered with the Health and Safety Executive Corporate Health and Safety Performance Index and is ranked seventh out of 175 registered participants from all industry sectors.

All AEA UK sites are certified under the Construction Industry Health and Safety assessment Scheme. Though primarily for the construction industry certification demonstrates through independent assessment that AEA continues to have a good health and safety performance as well as a structured health and safety management system that is suitable and applicable to our operations.

The Group reports on all recorded accidents and absences from work of one day or more, which result from a work related accident or occupational health condition. Every accident is investigated with a view to identifying lessons

Corporate responsibilities (continued)

learnt. The Board and senior managers regularly review safety performance statistics and monitor a range of KPIs. Legal frameworks, practices and KPIs differ slightly between the Group's European and US operations. The KPIs include near miss reporting, timeliness of reporting, speed of occurrence investigation and compliance with the scheduled programme of safety monitoring.

Reportable incidents [1]	None
Non reportable lost time accidents	2
Near miss reports events (ratio) [2]	3
Occurrences investigated within target time [2]	100%
Compliance with scheduled programme of safety monitoring [3]	100%
Prosecutions	None

[1] Reportable to the oversight body under relevant legislation
[2] Relates to Group performance
[3] Relates to European performance

Two non reportable lost time accidents occurred across the Group, related to a single incident and involved the loss of only two man days.

AEA US performance remains strong, with system improvements implemented over the last year.

People

The Group continues to attract and retain the best technical experts in our field by creating an environment where people have a voice and play a significant role in the ongoing development and success of the business through innovative thought leadership, collaborative working and a high performance culture.

Our ongoing belief in the principles of equality of opportunity and the value of diversity across the Group continue to be key elements of our employment strategy. The development of the business and its policies support the aim of becoming an employer of choice. Employment opportunities are offered according to capability and individuals are encouraged and supported in their personal career development.

The Group employs just under 1,000 people – circa 100 less than the previous year, driven primarily by the restructuring programme in response to the ongoing volatile market conditions. The business has continued to enhance its capabilities through focussed training and development initiatives.

We have further improved our talent pool through strategic hires during the year both in the UK and US. The focus has been on securing key technical capability and strong commercial acumen which underpin the continuous drive to maintain our strong competitive position and our strategy for growth.

Since the completion of the restructuring programme in the UK business and the commitment to create and maintain a range of improved employee communications and engagement initiatives, employee annualised turnover in the UK has reduced from 18% to 14%. Similarly in our US business turnover has reduced from 26% to 23% in PPC, whilst remaining at 12% in ERG.

Commitment to investing in the training and development of people has been ongoing in the year. This has been delivered through a blend of internal work shadowing and knowledge sharing and external training initiatives to meet the demands of the business and individual needs.

We are committed to providing a world-class working environment in which all our people feel valued, motivated and respected. We strive to build a diverse community, where people have an equal opportunity to contribute to our success and further develop their careers based on capability, regardless of their race, sex, religion/beliefs, disability, marital or civil partnership status, age, sexual orientation or gender.

In the event of employees becoming disabled, every reasonable effort is made to enable their employment with the Company to be maintained and that appropriate adjustments and/or training is arranged for them. Employees are provided with information through the Group's website: www.aeat.co.uk, the intranet, road shows and other internal communications. The views and ideas of employees are sought through direct discussion, employment engagement surveys, line management and an employee forum.

Risks and uncertainties

To achieve AEA's strategic objectives the Group must respond effectively to the associated risks.

AEA has a well established risk management process that complies with the FSA's UK Governance Code and addresses strategic risks and risks specific to individual businesses and contracts, including operational risks, financial risks, strategic risks, environmental and safety risks.

The Board has reviewed the material risks identified as well as the mitigating action plan. The principal risks for the Group are as follows:

Liquidity risk

The Group is exposed to a risk of adequate bank funding being available. AEA has a three year bank facility expiring in September 2014, which includes a £43.0 million revolving credit facility to manage periods of working capital fluctuation arising in the ordinary course of business. Recent bank covenant tests have been postponed but the longer term facility at 31 March 2012 can now be removed by the Bank at short notice. As disclosed in note 2 an additional short term facility of £5.0 million has been agreed in principle to fund the Group whilst it considers all strategic options to realise value, including through a sale of all or part of the Group's businesses and assets which it is hoped will enable the Group to agree a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme. Entering into a formal facility agreement in respect of the additional £5.0 million will be conditional upon the Group providing security and an ongoing liquidity covenant.

The Board believes that a sale of all or part of the Group's businesses and assets will return sufficient value to enable a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme. In addition, the Board believes it will be able to meet short term cash forecasts and operate within the short term facilities expected to be provided by the Bank and that they will be able to execute a sale of all or part of the Group's businesses and assets during the period in which facilities are provided by the Bank. However, there can be no certainty that such a sale process can be completed in the short term or that it will enable the discharge of liabilities to the Bank and the pension scheme.

Changes in the competitive environment resulting from Government policy

Future risks are likely to be dominated by a hiatus in placing contracts by both UK and US governments, and future changes in both UK and US government policies, priorities and expenditure levels or delays in implementation of legislation which could affect the Group's business. At the very least, internal government reorganisation could mean AEA finds itself working with new customers who have different priorities. AEA must therefore maintain ongoing links with senior officials in key UK and US government departments and anticipate and be able to react swiftly to future changes.

Investment is being made in making more complete use of the breadth of energy and environmental knowledge within and between the business units, increasingly underpinned by sales propositions, relationship skills and senior management connections with relevant parts of the customer organisations. Risk mitigation plans have focused on the development of more integrated propositions, leveraging extensive capabilities within the Group in data and information management and economics analysis. Actions to manage and mitigate risks to sales pipelines will be focused largely on maintaining and expanding sales to public sector bodies and international agencies and development of operating models to support this agenda.

Recruitment and retention of sufficient high calibre people

The risk for the business is that the sourcing of suitably qualified technical experts has become more challenging, particularly in the UK market where demand for high calibre experts has increased. However, through a combination of challenging and rewarding assignment opportunities, enhanced by the opportunities of working both in the US and the UK, and through investment in development in both technical and business skills, the Group has successfully executed its retention strategy and expects to continue this strategy into the future.

Retirement benefits

The Group is exposed to financial risks in relation to the AEA Technology plc Pension Scheme (the "Scheme"), which currently has a large deficit. The amount of the deficit can vary significantly due to changes in the assumptions used to value the longevity of Scheme members, the discount rate, and the inflation rate assumptions. Consequently the Group is exposed to the risk of increases in the cash contributions payable under the recovery plan, volatility in the deficit reported in the Group's Balance sheet and gains/losses recorded in the Group's Consolidated statement of comprehensive income. The Board has also taken steps to improve the governance of the Scheme. This includes the

Risks and uncertainties (continued)

appointment of an independent trustee as chairman of the board of directors of the Trustee and the adoption of a trigger based de risking strategy.

Legacy provisions

The Group has provided for various liabilities inter alia onerous leases, warranties and indemnities in respect of disposals of companies and businesses. Uncertainty exists around the potential for claims under warranties and indemnities in respect of these disposals, with a number of indemnities continuing for five or more years post divestment, and there is uncertainty in estimating the future costs of decommissioning nuclear facilities. The total liability is predominantly represented by provisions, as detailed in note 27 to the Financial Statements.

All residual issues relating to the divested and closed businesses are under the control of the CFO and the Company Secretary. The Group has not become aware of any significant additional liabilities in respect of disposals. We continue actively to address and reduce the legacy risks and have reduced them considerably during 2011/12.

Exchange risk

The Group has operations denominated in US dollars and also maintains a US dollar loan. As a result, the Group's profit and net debt is impacted by exchange rate fluctuations which could have a negative or positive impact on the Group results. This is covered in more detail in the financial instrument disclosures within notes 16 and 25 of the Financial Statements.

Board of Directors

Dr Paul Golby CBE
Chairman ■

Paul Golby was appointed Non-Executive Chairman to the Board of AEA in September 2009, having joined the Board in August 2003. He is the Chairman of the Nomination Committee and until May 2011 was a member the Audit Committee. After training as a mechanical engineer, Paul had a series of management appointments with Dunlop and BTR before becoming an Executive Director of Clayhithe plc. Until December 2011 he was Chief Executive of E.ON UK plc and an executive member of E.ON AG, its parent company. Paul is a Fellow of the Royal Academy of Engineering, the Institution of Engineering and Technology, the Institution of Mechanical Engineers and the Energy Institute and Chairman of Engineering UK. He was appointed earlier this year to the post of Chair of the Engineering and Physical Sciences Research Council. Paul is a non executive director of National Grid plc.

Rodney Westhead
Senior Non-Executive Director ▲ ■

Rodney Westhead, Non-Executive Director (NED), was initially appointed to the Board in August 2003. He is the Senior Independent Director (SID), chairs the Audit Committee and is a member of the Nomination Committee. From 1996 until his retirement in 2005, he was Chief Executive of Ricardo plc, a leading automotive engineering consulting company. He is a former Chairman of Carter and Carter (in administration), Chairman of Clean Air Power and a Director of Transense Technologies plc. An accountant by profession, he was a partner with Grant Thornton, including Managing Partner of their London office, before moving to Ricardo plc in 1992 as the Group Finance Director. Rodney was appointed to the Council of Brunel University in August 2010.

John Lowry
Interim Chief Executive Officer

John Lowry was appointed as Interim Chief Executive Officer in November 2011. Having started out as a technologist who won a Queen's Award to Industry, John has spent his career working in leading edge technology companies including IBM, Accenture, General Electric Company, ICI, Ford Motor Company, Unilever and Thorn EMI. Subsequently he has been involved in the start-up, turnaround, operational restructuring, refinancing, merger and acquisition of technology businesses in both the US and Europe. John is Chairman of Norbain Group Limited.

Bernard Lord
Non-Executive Director (NED) ▲ ■ ●

Bernard Lord was appointed to the Board of AEA in November 2010. He is a member of the Remuneration Committee, the Audit Committee and the Nomination Committee. Bernard is President and Chief Executive of the Wireless and Telecommunications Association of Canada. He is a corporate board member for Medavie Blue Cross and Clean Air Power, is a member of the New Brunswick Law Society, is Scholar in Residence with the McGill University Health Centre and is former Premier of the Province of New Brunswick, Canada and is Chair of the Mobile Giving Foundation of Canada.

Kevin Higginson
Chief Financial Officer

Kevin Higginson was appointed to the Board of AEA as CFO in April 2011. He was previously Director and Group Finance Director of Low & Bonar plc. A chartered accountant, Kevin was formerly Group Finance Director of the BSS Group PLC. Prior to his role at BSS, he held various senior positions, including Group Chief Executive and Group Finance Director with Hazlewood Foods plc.

▲ Audit Committee ● Remuneration Committee ■ Nomination Committee

As at date of publication – 31 July 2012

Governance and key performance indicators

Statements of appliance of, and compliance with, the UK Corporate Governance Code

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 March 2012, and as at the date of this Annual Report and Accounts, it was compliant with the provisions of, and applied the principles of good governance set out in the UK Corporate Governance Code (available at www.frc.org.uk).

The Board

The Board is collectively responsible for the performance of the Group. Its role is to provide entrepreneurial leadership, to set and implement strategy within a framework of effective internal controls, and to ensure the success of the Group for shareholders. The Board holds scheduled meetings throughout the year and met 24 times during 2011/12.

The posts of the Chairman and Interim CEO are separate and the Board has defined their respective responsibilities in writing. The Board has formally agreed a written schedule of matters reserved for its decision that it keeps under regular review. Amongst the reserved decisions are: agreeing the annual financial budget; approval of major acquisitions and divestments; major investment proposals; large contract bids; and major decisions regarding pensions.

Rodney Westhead as the SID is available to shareholders as an independent point of contact to the Chairman and Executive Directors.

The Board has satisfied itself that each NED is independent, meaning in character and in judgment, and free of relationship or circumstance which is likely to affect, or could appear to affect, the exercise of independent judgment.

The Board receives a monthly review of operating, financial and cash performance and regular reviews on key aspects of the Group's activities. Through the Company Secretary, Directors receive papers on all substantive agenda items in sufficient time before meetings to be meaningful and the Chairman ensures that all Directors are properly briefed on issues arising at the Board. All Directors are encouraged to bring an independent judgment to bear on issues of strategy, performance, resources, key appointments and standards of conduct.

Attendance record at Board and Committee meetings during the year ended 31 March 2012

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings	24	4	2	1
Paul Golby [1]	24	1	1	1
Andrew McCree [2]	6	4	–	–
Alice Cummings [3]	1	–	–	–
John Lowry [4]	13	–	–	–
Kevin Higginson [5]	24	4	–	–
Tim Robinson [6, 8]	16	–	2	1
Bernard Lord	16	4	2	1
Rodney Westhead [7]	21	4	2	1

[1] Chairman of Nomination Committee
[2] Resigned 16 November 2011
[3] Resigned 20 April 2011
[4] Appointed 30 November 2011
[5] Appointed 20 April 2011
[6] Chairman of Remuneration Committee
[7] Chairman of Audit Committee
[8] Resigned 16 July 2012

Key performance indicators

	2012	2011
Total order intake	**£134.1 million**	£80.9 million
Revenue per employee	**£0.10 million**	£0.12 million
Adjusted operating profit [1]	**£4.1 million**	£8.8 million

[1] Adjusted operating profit is operating profit before amortisation of acquired intangibles, impairment of goodwill and other significant items

Performance evaluation

The UK Corporate Governance Code attaches importance to Boards having processes for individual and collective performance evaluation. The Board has evaluated its own performance and that of its individual Directors and Committees during the year.

The Chairman talks to each Director at least annually to appraise their performance and the SID leads an evaluation of the performance of the Chairman in discussion with the SID and taking account of the views of the Executives. The Chairman and the NEDs meet without the Executive Directors present.

Election of Directors

Under the Company's Articles of Association, all Directors must stand for election by shareholders at the first opportunity after their appointment. Accordingly John Lowry will stand for election at the AGM.

Nomination Committee

The Nomination Committee has written terms of reference that meet the guidance of the UK Corporate Governance Code. Its role is to lead the process for new Board appointments and succession planning, and to make recommendations in these areas to the Board. The terms of reference are available on the corporate governance section of the Company's website and make clear that the aim is to identify potential candidates from a wide range of backgrounds on the basis of personal merit and suitability.

Paul Golby chairs the Committee, which met on one occasion during the year to 31 March 2012. The terms of reference provide that all NEDs shall be members, subject to a restriction that members must not be involved in processes relating to their successor or to posts for which they may be candidates. The Committee requires each Director to formally declare potential conflicts of interest.

Letters of appointment to NEDs set out the expected time commitment. A check is made in the appointment process that they undertake to have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board and substantial subsequent changes are brought to its attention.

Remuneration Committee and Directors' remuneration

The role and work of the Remuneration Committee is described in the Report on Directors' remuneration on pages 25 to 33.

Audit Committee

Members of the Audit Committee have comprised Rodney Westhead (Chairman), Bernard Lord (appointed 26 May 2011) and Paul Golby (resigned 26 May 2011). The former Chief Executive Officer, Kevin Higginson and the external auditors attended meetings of the Committee at the request of the Committee Chairman.

The Committee's role is to assist the Board in the effective discharge of its responsibilities for financial reporting and internal control.

The Audit Committee report on pages 34 to 35 includes details of the Audit Committee and its work.

Relations with shareholders

Regular meetings are held between the CEO and CFO and institutional investors, for example after the publication of Group half-year and annual results, which involve a wide-ranging discussion about the Group's performance and plans. The Group encourages dialogue with its shareholders in various ways, including via information placed on its website and a planned investor relations programme. The SID is available as a channel of communication if shareholders have concerns that are not appropriately handled through other channels. Institutional shareholders also have the opportunity to meet new NEDs.

Whenever possible, all Directors attend the AGM so that shareholders have the opportunity to question them, including in their role as Chairmen of Board Committees. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration. Resolutions include the approval of the Annual Report and Accounts and adoption of the Report on Directors' remuneration. The proxy form allows shareholders to vote for or against each resolution or to withhold their vote. Proxy votes for and against each resolution, plus "votes withheld", are announced at the meeting after each resolution has been dealt with on a show of hands, and are then published on the Company's website. The Company uses its registrars to ensure that there are effective processes in place for properly receiving and recording the votes cast. Notice of AGM and related papers are sent to shareholders at least 21 days in advance of the meeting.

Internal control

Responsibility and process

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This system is designed to manage rather than to eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement and loss.

The Board confirms that there is an on–going process for identifying, evaluating and managing the Group's significant risks, that this has been in place for the year ended 31 March 2012 and up to the date of approval of the Annual Report and Accounts, that it covers subsidiaries in which the Group has an interest of 50% or more, that it is regularly reviewed by the Board and that it accords with the FSA's internal control guidance for Directors on the Combined Code ("the Turnbull guidance").

Control environment

The Group's organisational structure has clearly documented and communicated levels of responsibility, delegated authority and reporting procedures. Management systems have been externally accredited. The professionalism and competence of employees is maintained through recruitment, performance and development reviews, training and development plans. The Board supports the highest levels of commitment and integrity from employees and has endorsed a code of business ethics, a copy of which is available to all employees.

Identification of risk

Each business and service has identified and assessed the risks of meeting objectives, weighted and prioritised these on the basis of their assessed impact and likelihood, and then taken timely actions to manage or eliminate them through compensating internal controls. The relevant management process approved by the Board recognises that risks arise from many internal and external sources and that a wide range should be considered. The effectiveness of these actions is monitored and reviewed regularly. These business and service reviews form the basis of an annual review to the Executive and Board. Regular management information includes a review of risks with specific contracts such as those with reported technical or financial problems.

Control procedures

Control procedures are documented in the Group's management systems, which are subject to external audit. These include a finance manual, corporate and business quality assurance manuals, safety procedures and environmental management procedures. Procedures are designed to ensure that work is carried out to meet stated objectives, that risk is managed through risk–based internal controls, that delegations are based on risk assessments, and variances are identified and reported in a timely way to enable corrective actions to be taken. Procedures are also subject to review so that improvements to enhance controls can be made.

Financial reporting

The consolidation process for Group financial reporting is controlled by using appropriately qualified financial professionals to prepare and consolidate financial information on a timely basis, by maintaining robust and secure accounting systems and by undergoing internal review and external independent audit of the financial reporting and information on a periodic basis.

Consistency is achieved through the documentation and Group wide adherence to Group wide accounting policies and procedures as set out in the finance manual. The policy and procedures documented in the finance manual comply with International Accounting Standards.

Monitoring and corrective actions

The Board approves an annual Group budget. It receives monthly reports, supplemented by other reviews, on a range of key performance and risk indicators and considers possible control issues. The indicators cover financial, operational, safety, environmental and compliance aspects of performance with forecasts revised in response to developments.

During the year, the internal audit function reported to the Audit Committee, which approved its programme and considered its recommendations. Due to circumstances beyond the Company's control the Company was actively seeking a suitably qualified replacement internal audit resource at, and subsequent to, 31 March 2012. The position was also vacant at 31 March 2011. The Board also received, and decided appropriate action on, reports from the Audit Committee. For its annual review of the internal control system, the Board took account of its own reviews and monitoring during the year, plus an annual report submitted via the Audit Committee in order to obtain the degree of assurance required under the UK Corporate Governance Code. The Board also has responsibility for satisfying itself with the effectiveness of the Group's risk management processes.

Compliance with control procedures was monitored during the year by internal audit and through reviews of compliance with the Quality Management System. Businesses are required to confirm their compliance annually with the internal control system.

Other statutory information

Results and dividends

This year's results are set out in the Consolidated income statement. No interim dividend was paid (2011: £nil) and the Directors recommend that there is no final dividend for the year (2011: £nil).

Share capital

The Company's authorised and issued share capital as at 31 March 2012, together with details of shares issued during the year, is set out in note 20 to the Financial Statements. Each Ordinary share of the Company carries one vote.

Authority to purchase shares

The Company was authorised at the 2011 AGM to purchase its own shares, within certain limits and as permitted by the Articles. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes. No shares were purchased under this authority during the year ended 31 March 2012.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as issuing or buying back of the Company's shares, the rights of shareholders, the appointment or removal of directors and the conduct of the Board and general meetings. Copies are available from the Company on request. Amendments to the Articles of Association must be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the directors may exercise all the powers of the Company and may delegate authority to committees. Details of the main Board Committees can be found in Governance and key performance indicators.

Substantial shareholders

As at 31 July 2012 the Company has been notified of the following significant interests in its shares expressed as a percentage of issued share capital:

Mr David Meyers	6.75%
GAM London Limited	6.54%
Schroder Investment Management Limited	4.61%
Mr M Seabrook	3.44%

Change of control

There are a number of contracts which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment due to a takeover other than as reported in the Report on Directors' remuneration and in relation to the Company's Save as you Earn (SAYE) plan. Under the SAYE plan options may vest and become exercisable in accordance with the rules of the plan.

Acquisitions, joint ventures and branches

There were no acquisitions or incorporated joint ventures entered into during the year. The Group has no branches.

Indemnities and insurance

AEA maintains Directors and Officers liability insurance and has granted the Directors and former Directors of the Company and its associated companies an indemnity, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Research and development

The Group has capitalised £0.1 million (2011: less than £0.1 million) in developing new products in the form of tools and services (note 14 to the Financial Statements).

Independent Auditors

PricewaterhouseCoopers LLP (PwC) have indicated their willingness to continue in office and a resolution that they will be re-appointed will be proposed at the AGM.

The Board has agreed as a policy that work other than statutory reporting work and directly related services will not be placed with the external audit firm unless it gives prior agreement after satisfying itself that to do so is in the best interest of the Group.

Payment policy

The Company's policy is to agree terms of trading that are appropriate for suppliers' markets and to abide by such terms where suppliers' obligations have been met. The Company had £0.4 million (2011: £nil) amounts outstanding direct with trade suppliers at 31 March 2012.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Report on Directors' remuneration comply with the Companies Act 2006, Jersey Law and, as regards the Group's financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Companys' website: www.aeat.com. The Directors' responsibility extends to the ongoing integrity of the financial statements contained therein. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Annual Report and Accounts, confirms that, to the best of his knowledge:

- The financial statements, which have been prepared in accordance with IFRs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group; and
- The Directors' Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditor

Each Director confirms that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that he ought to have taken as a director to make himself aware of any audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Kevin Higginson
Director

31 July 2012

Report on Directors' remuneration

This Report complies with the Directors' Remuneration Report Regulations 2002, FSA Listing Rules and the principles of good governance as set out in the UK Corporate Governance Code. A resolution inviting shareholders to approve the Report will be tabled at the Annual General Meeting.

The information in sections F and G is subject to audit.

A THE REMUNERATION COMMITTEE AND ITS ADVISERS

The Remuneration Committee (the Committee) has responsibility from the Board to agree the remuneration of the Chairman, the Executive Directors and selected senior managers. Its terms of reference are available on the Company's website. Membership of the Committee in the year ending 31 March 2012 was as follows:

Rodney Westhead, Chairman until 1 September 2011
Bernard Lord
Tim Robinson, Chairman from 1 September 2011 until 16 July 2012

The Company Secretary acted as the Committee's Secretary.

The Committee has utilised the services of KPMG LLP, Linklaters LLP and PricewaterhouseCoopers LLP to assist in the discharge of its responsibilities in the year. The former Chief Executive Officer attended meetings of the Committee at the request of the Committee Chairman and also provided assistance in relation to those executives who reported to him.

B EXECUTIVE DIRECTORS

B1 Remuneration policy and approach

The Committee reviews Executive Directors' remuneration annually to ensure consistency with Group business objectives, relevant comparable companies and with any change in relevant legislation or best practice guidelines.

The Committee's policy is that the level and structure of executive remuneration is to be competitive and performance-related. Specifically, the objectives are to take account of remuneration for similar job functions in comparable companies; that packages should attract, motivate and retain executives with the experience, skills and talents to operate and develop the Group to its maximum potential; and that a significant element of the potential reward is to be related to Group performance, ensuring direct alignment with the interest of shareholders.

B2 Remuneration packages

Individual packages comprise a mix of fixed and variable performance-related elements, with the latter representing a significant part of the potential total reward.

Fixed elements:

a) Basic salaries:

Basic salaries are reviewed annually, or when changes in responsibilities occur, taking into account relevant external market comparisons for similar job functions, the level of responsibility of each Executive, individual skills and experience, salary levels throughout the Group and movements in basic pay in the Group. The fact that salaries are reviewed annually does not imply that any salary increase will be awarded as a result of the review.

b) Pension:

See section F2.

Report on Directors' remuneration (continued)

c) Other benefits:

These include, variously as appropriate: a company car or car allowance, a cash salary supplement payment in lieu of pension benefits in respect of salary above the earnings cap where applicable, and health care. The taxable value of these benefits is included in the Directors' emoluments table in section F1. Executive Directors are eligible to participate in the Company's all-employee share plans, namely Save As You Earn (SAYE) and the Share Incentive Plan (called Buy As You Earn or BAYE). Neither of these plans involve performance conditions.

Variable performance related elements:

Individual remuneration packages include a significant variable performance-related component, payable only if, and to the extent that, demanding conditions have been met that have increased shareholder value through growth in earnings and contributed significantly to corporate strategy and development.

a) Annual cash bonus:

The Executives are eligible to earn a non-pensionable cash bonus of up to 70% of basic salary.

The Committee sets measures and targets relating to improving shareholder value. These included achieving operating performance targets for orders, profit and net debt, and strategic measures such as extending the customer base. During the year Andrew McCree was paid a bonus of £35,000.

b) Longer term share based incentive:

See section B3.

B3 Performance Share Plans (PSPs)

2008 PSP Plan

The PSP has two components: 50% of the award is dependent on the satisfaction of an Earnings per Share (EPS) performance target, the remaining 50% is dependent on local operating targets. The performance period is from 1 April 2009 to 31 March 2012. No awards were made in the year under the 2008 PSP Plan.

Company Share Option Plan (CSOP)

Awards were made to Executive Directors and others between 2000 and 2003 under a CSOP with vesting subject to an earnings per share three-year Company performance period. Options awarded in 2001 at an exercise price of 296.5p per share vested in 2004 and participants had until June 2011 to exercise their options, to be satisfied by shares in the Company. The interests of the Executives are shown in the table in section G2. No awards were made under this plan during the year.

AEA Technology Group plc Long Term Incentive Plan (LTIP)

The LTIP was approved by shareholders in October 2010.

Awards under the LTIP comprise notional entitlements to ordinary 1p shares in the Company with a notional value equal to the market value of the share calculated as the average price over the three business days prior to the date of the grant (Grant Price).

Awards under the LTIP were made subject to performance conditions as follows:

- 10% of the conditional share awards vest if Total Shareholder Return over three years is at least 1.75 times the Grant Price;
- 100% of the conditional share awards vest for Total Shareholder Return of 3.5 times the Grant Price;
- Up to 50% of any award will vest on the date the performance conditions have been satisfied;
- A further 25% of the award will vest on the fourth and fifth anniversaries of the date of the grant.

The following conditional share awards were made under the LTIP on 28 July 2011:

Andrew McCree	19,305,019
Kevin Higginson	19,305,019

B4 Service contracts

	Contract date	Retirement date	Notice period
Executive Directors			
John Lowry [1]	30 November 2011	Not applicable	The contract ended on 31 May 2012 but was extended to 31 December 2012 by agreement with John Lowry
Kevin Higginson [2]	20 April 2011	24 October 2024	12 months
Andrew McCree [3]	27 November 2000	19 August 2022	12 months
Alice Cummings [4]	22 November 2006	1 November 2028	12 months
Chairman			
Paul Golby	5 November 2010	Not applicable	1 month
NEDs			
Bernard Lord	26 November 2010	Not applicable	1 month
Tim Robinson [5]	26 November 2010	Not applicable	1 month
Rodney Westhead	5 November 2010	Not applicable	1 month

[1] Appointed 30 November 2011
[2] Appointed 20 April 2011
[3] Resigned 16 November 2011
[4] Resigned 20 April 2011
[5] Resigned 16 July 2012

John Lowry's contract ended on 31 May 2012 but was extended to 31 December 2012 by agreement with him.

Kevin Higginson's contract provides for a retirement age of 65 and for a rolling twelve-month notice period from the Group, with provision for reduced or no notice in the event of dismissal for defined circumstances. He is required to give six months' notice.

The contracts for the Chairman and NEDs provide for a one-month notice period on either side.

The Committee accepts and endorses the principle of mitigation of damages on early termination of appointment. Guaranteed termination payments are limited to payment of salary and benefits in respect of the notice period, with all variable elements of compensation (bonus payments, outplacement support and vesting of share options) being at the discretion of the Committee.

Report on Directors’ remuneration (continued)

B5 Shareholding guidelines

The Committee has agreed the principle that Executive Directors are expected to build up and maintain significant shareholdings in the Company over time, allowing for differences in individuals' circumstances, particularly as awards under variable incentive plans vest.

B6 External directorships

Executive Directors are allowed to hold external NED appointments subject to prior Board agreement, and are allowed to retain any fees payable to them with the consent of the Committee, except where the appointment is as a representative of AEA.

C SENIOR MANAGERS

The Committee’s remit extends to selected senior managers as determined by the Board, who are current employees with a salary in excess of £120,000 or any equivalent in Euros or US Dollars. Their contract structure is similar to that of the Executive Directors, with salaries determined in line with market comparisons and with a split between fixed and variable performance-related elements.

D NEDs AND CHAIRMAN

The NEDs’ and Chairman’s appointments provide for payment of a fee. The Board has delegated the responsibility for approving fees within the limits in the Articles as follows:

a) to the Committee for the Chairman; and

b) to the Executive Directors for the other NEDs.

In this way, no Director is responsible for the setting of his or her own remuneration.

NEDs, including the Chairman, are paid a basic fee, determined by reference to market comparisons. The basic fee in the year was £31,000. The Chairman’s fee for the year was £95,000. Tim Robinson received his fee in the form of shares under the terms of a trading agreement.

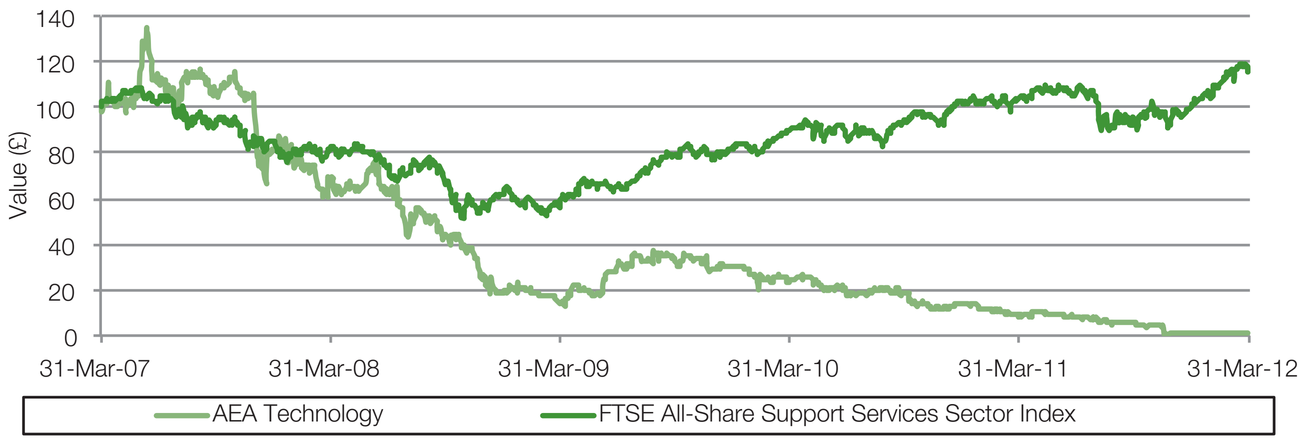
NEDs do not receive share options, performance related bonus or pension entitlements and are not eligible to participate in all-employee share plans. However, they are entitled to reimbursement of reasonable expenses in line with the policies applying to Group employees.

E PERFORMANCE GRAPH

The following graph compares the performance of AEA Technology plc and AEA Technology Group plc, by reference to total shareholder return (TSR), with that of the FTSE Support Services sector for the five years ending 31 March 2012. The Group has been in this sector throughout this period and the Committee uses many of the component companies as market comparators. TSR is shown as the value of £100 invested in the Company and in the FTSE Support Services sector over the same period, measuring share price growth plus dividends paid.

Total shareholder return

Source: Thomson Reuters



Report on Directors' remuneration (continued)

F DETAILS OF DIRECTORS' REMUNERATION

Sections F and G have been externally audited.

F1 Directors' emoluments

Details of individual Directors' emoluments, excluding contributions by the Group into a pension scheme (see section F2), for the year are as follows:

	Salary or fee £000	Benefits £000	Annual bonus £000	Termination payment £000	2012 Total emoluments £000	2011 Total emoluments £000
Executive Directors						
John Lowry [1]	234	–	–	–	234	–
Kevin Higginson [2]	237	54	–	–	291	–
Andrew McCree [3]	209	74	35	437	755	387
Alice Cummings [4]	11	6	–	401	418	212
Mike Nigro	–	–	–	–	–	131
Gwen Ventris	–	–	–	–	–	485
NEDs						
Paul Golby	95	–	–	–	95	86
Bernard Lord	31	–	–	–	31	13
Tim Robinson [5]	31	–	–	–	31	13
Rodney Westhead	36	–	–	–	36	32
	884	134	35	838	1,891	1,359

[1] Appointed 30 November 2011
[2] Appointed 20 April 2011
[3] Resigned 16 November 2011. Salary included pension contributions made by AEA Technology plc under an HMRC approved salary sacrifice arrangement
[4] Resigned 20 April 2011
[5] Resigned 16 July 2012

Andrew McCree's termination payment is being paid in monthly instalments and is subject to mitigation if alternative employment is found prior to the final instalment being paid.

Alice Cummings' termination payment was paid in two tranches and was subject to mitigation if alternative employment was found prior to the second instalment being paid.

The Benefits column includes, variously as appropriate, provision of a company car or car allowance, health care, and a cash salary supplement payment in lieu of pension benefits in respect of salary above the earnings cap, see F2.

F2 Pensions

Features of the current pension and associated arrangements for each Executive Director are set out below. The value of cash salary supplements paid in the year is shown in the table at F1.

Andrew McCree was a member of the AEA Technology Corporate Pension Plan, a defined contribution stakeholder arrangement, which is open to all employees. AEA Technology plc matched his contribution up to 8% of salary. He received a taxable cash salary supplement in lieu of pension benefits above the earnings cap, worth 30% of salary above the earnings cap.

The information in the table below shows the total value of pension benefits for Andrew McCree built up in the AEA Technology Pension Scheme prior to its closure to future accrual.

Columns (a) and (b) show the deferred pension benefit entitlements at 31 March 2012 and 31 March 2011 respectively.

Column (c) is the transfer value of the deferred pension benefit in (a) calculated at 31 March 2012 by the Scheme Actuary.

Column (d) is the equivalent transfer value at 31 March 2011 of the deferred benefits in (b) on the assumption that the Director left service at that date, again calculated by the Scheme Actuary.

Column (e) shows the change in the transfer value between (c) and (d).

The transfer values are calculated in accordance with actuarial guidance note GN11.

	(a) Accrued benefit at 31/3/12 £	(b) Accrued benefit at 31/3/11 £	**(c) Transfer value at 31/3/12 £**	(d) Transfer value at 31/3/11 £	(e) Change in transfer value (c) – (d) £
Andrew McCree [1]					
Approved pension	**43,466**	41,984	**919,432**	716,817	202,615
Approved lump sum	**28,652**	27,392	**–**	–	–

[1] Separate lump sum benefits accrue under the Closed Section of the Company's pension scheme. The transfer values shown include the value of pension and lump sum benefits.

F3 Payment to former Directors

Unfunded top-up arrangements transferred to AEA on separation from UKAEA in 1996 to provide benefits in excess of the HMRC earnings cap for certain individuals. AEA Technology plc makes a provision in the accounts in order to cover these benefits.

Details of payments made to former Directors in the year are:

Unfunded Pension	**2012 £000**	2011 £000
Ray Proctor	**50**	47
Dr Peter Watson	**126**	121
Dr Chris Wright	**11**	10
	187	178

Report on Directors' remuneration (continued)

G DIRECTORS' INTERESTS IN SHARES AND OPTIONS

G1 Interests in shares

The interests of the Directors in the Ordinary shares of the Company:

	31 March 2012	1 April 2011
Andrew McCree*	**418,339**	163,024
Alice Cummings*	**49,676**	46,680
Kevin Higginson	**210,000**	–
Paul Golby	**241,312**	31,312
Rodney Westhead	**64,717**	64,717
Tim Robinson*	**1,866,691**	–

* at date of resignation.

In the period from 1 April 2012 to 16 July 2012 Tim Robinson acquired 1,360,959 shares under the terms of a trading agreement by which he receives his Director's fees in the form of shares.

No Director had an interest at any time in the year in the share capital or loan stock of other Group companies.

G2 Interests in share options and awards

The interests of Executive Directors over Ordinary shares of the Company and previously AEA Technology plc under the SAYE scheme, the CSOP, the PSP and the LTIP are set out below:

	1 April 2011	Options granted in year	Options lapsed in year	31 March 2012	Exercise price	Date from which exercisable	Expiry date	Scheme
Andrew McCree	90,923	–	90,923	**–**	£2.965	26/06/04	26/06/11	CSOP
	570,175	–	47,341	**522,834***	£0.00	11/08/12	10/09/12	PSP
	–	19,305,019	–	**19,305,019***	–	See section B3	See section B3	LTIP
Alice Cummings	15,177	–	15,177	**–**	£2.965	26/06/04	26/06/11	CSOP
	3,840	–	3,840	**–**	£0.70	01/04/11	30/09/11	SAYE
	34,821	–	34,821	**–**	£0.14	30/06/11	31/12/11	SAYE
	307,895	–	97,008	**210,887***	£0.00	11/08/12	10/09/12	PSP
Kevin Higginson	–	19,305,019	–	**19,305,019**	–	See section B3	See section B3	LTIP

*At date of resignation

The PSP Awards granted have two performance components; an overall Group target for earnings per share growth over the performance period 1 April 2009 to 31 March 2012 and separate local operating targets. The element related to earnings per share growth will be paid at a sliding scale with no vesting for growth below RPI plus 3% and 100% vesting for growth of RPI plus 7%.

The market price of the Company's shares at 31 March 2012 was 0.27p. During the year, the share price varied between 5.00p and 0.18p.

By order of the Board

Rodney Westhead
Non Executive Director

31 July 2012

Audit Committee report

This report provides details of the role of the Audit Committee ('the Committee'), the work it has undertaken during the year to 31 March 2012 and its membership. The role of the Committee is to assist the Board in discharging its responsibilities in ensuring the integrity of both the Group and Company's Financial Statements, the ongoing assessment of the effectiveness of the systems of internal controls and in ensuring the effectiveness and objectivity of the internal and external auditors.

The Committee met on four occasions in 2011/12 and the record of attendance is set out in the Corporate Governance report shown on pages 18 and 19. The committee invites other parties to meetings when it is appropriate to do so, including the CEO, the CFO, the head of internal audit and the external auditors. The committee met with the external auditors on two occasions without any Executive Directors in attendance.

The Company Secretary acts as the secretary to the Committee.

Composition of the Committee

The Committee comprises independent Non-Executive Directors (independence being defined by Provision A.3.1 of the Combined Code) who are free from any business or other relationship which could interfere with the exercise of independent judgment.

The Non-Executive Directors who served on the Committee during the year were Rodney Westhead (Chairman), Bernard Lord and Paul Golby, who resigned from the Committee on 26 May 2011.

The Board considers that Rodney Westhead, who holds a professional accounting qualification, has relevant and significant recent financial experience.

The Chairman reports the work of the Committee and its findings to the Board.

Responsibilities

The Committee's responsibilities include:

- Resourcing the internal audit function and monitoring and reviewing its cost effectiveness and outputs and reviewing management's responses to those outputs;
- Considering and recommending to the Board the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- Reviewing and monitoring the independence and objectivity of the external auditors, including the periodic rotation of audit partners and the provision of non-audit services;
- Reviewing and challenging where necessary the Group's and Company's half yearly and Annual Report and Accounts prior to them being presented to the Board, specifically in areas of policy and procedure and judgment, the effect of unusual transactions, specific accounting and legal disclosures, significant audit adjustments, going concern, compliance with accounting and regulatory requirements and the position of the pension fund;
- Reviewing and advising on the effectiveness of the Company's financial reporting and internal control policies and procedures for the management of identified risks; and
- Reviewing the procedures and processes for effective 'whistle blowing' by employees.

The full terms of reference for the Committee can be found on the Group's website, and are also available from the Company Secretary.

The Board has reserved to itself the review of trading statements and associated announcements.

Main activities of the Committee during the year

During the year the Committee's deliberations included the following:

- The monitoring of the Group's cash management within the covenants agreed with the Group's bank.
- The Half-Yearly and Annual Report and Accounts were reviewed in conjunction with the external auditors report on the Half-Yearly and Annual audits and in advance of consideration by the Board.
- The internal audit reports for all the audits completed during the year were reviewed and plans for future audits discussed in light of key legislative changes, operational requirements and acquisitions, with the internal audit resources and time frames being agreed.
- The annual review of internal controls and risks was considered.
- The potential financial liabilities for ongoing and potential legacy issues of divested businesses were considered and progress on specific current issues reported on.
- The year-end audit strategy of the external auditors was presented to the Committee, with discussions with the external auditors on key risk areas, materiality, changes to accounting standards and legislation that will impact on the Group and fraud.
- The requirements of the UK Bribery Act were considered and a management review of internal policies and procedures was undertaken to ensure that the risks of bribery occurring within the Group are minimised. In addition the senior management team was given training on the requirements of the UK Bribery Act.

Independence of external auditors

PricewaterhouseCoopers LLP (PwC) have been the Group's external auditors since 1996, and the audit was last put out to tender in 2007. The Audit Committee considers that the relationship with PwC is continuing to work well and remains satisfied with their effectiveness and independence. PwC are required to rotate the audit partner responsible for the Group every five years and the current lead partner is due for rotation in 2012.

In making its recommendation to the Board that PwC is reappointed for a further year, the Committee took into account their tenure as auditors and considered whether there should be a full tender process. There were and are no contractual obligations restricting the Group's choice of external auditor.

The Group has adopted policies designed to uphold the independence of the Group's principal external auditors by prohibiting their engagement to provide other accounting and other professional services that might compromise their appointment as independent auditors. The committee receives annual confirmation from PwC as to their independence and objectivity within the context of applicable regulatory requirements and professional standards as well as compliance with the Group's policies on the use of external auditors for non-audit work.

The engagement of the Group's principal auditors to provide statutory audit services, other services pursuant to legislation, taxation services and certain other services are pre-approved.

Any proposal to engage the external auditors for non-audit work exceeding £0.6 million must be submitted to both the CEO and the Audit Committee Chairman prior to contracts being signed for non-audit work to be undertaken. The level of non-audit fees in 2012 is shown in note 7.

Rodney Westhead
Chairman of the Audit Committee

31 July 2012

Independent Auditors' report to the members of AEA Technology Group plc

We have audited the Group Financial Statements of AEA Technology Group plc for the year ended 31 March 2012 and the parent Company Financial Statements for the period ended 31 March 2012, which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Balance sheets, Statement of changes in equity, Statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's and parent company's affairs as at 31 March 2012 and of the Group's loss and the Group's and the parent Company's cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matters

In our opinion:

- the information given in the Directors' Report for the financial year for which Financial Statements are prepared is consistent with the Financial Statements and;
- the information given in the Corporate Governance Statement set out on pages 18 to 19 with respect to internal control and risk management systems and about share capital structures is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company Financial Statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement set out on pages 5 and 24 in relation to going concern;

- the part of the Governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Emphasis of Matter – Going Concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the Financial Statements concerning the Group's ability to continue as a going concern. The Group only has access to a funding facility for the short term and requires the ongoing support of the Bank and pension scheme and to secure a financial restructuring plan that provides an appropriate solution to the funding for the Bank and pension scheme. The Group also requires its forecast results to be achieved in order to continue its operations. These conditions, along with the other matters explained in note 2 to the Financial Statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Miles Saunders

Miles Saunders

For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Reading

31 July 2012

Financial Statements

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations, as adopted for use within the European Union and Jersey Law 1991 applicable to companies reporting under IFRS.

Consolidated income statement

For the year ended 31 March	Note	2012 £m	2011 £m
Revenue	5	**110.3**	113.7
Cost of sales		**(64.2)**	(69.1)
Gross profit		**46.1**	44.6
Other operating income	6	**1.6**	3.2
Selling and marketing costs		**(7.1)**	(7.6)
Administrative expenses		**(76.0)**	(46.1)
Operating loss	7	**(35.4)**	(5.9)
Investment income		**–**	0.1
Finance income	9	**20.6**	21.2
Finance costs	10	**(25.3)**	(25.1)
Loss before tax		**(40.1)**	(9.7)
Income tax	11	**(0.3)**	(4.3)
Loss for the year attributable to the owners of the Company		**(40.4)**	(14.0)
Loss per share attributable to the owners of the Company during the year			
Basic (pence)	12	**(2.8)p**	(1.2)p
Diluted (pence)	12	**(2.8)p**	(1.2)p

All results relate to continuing operations.

Consolidated income statement – alternative performance measures (note 2)

Adjusted operating profit	Note	2012 £m	2011 £m
Operating loss	7	**(35.4)**	(5.9)
Amortisation of acquired intangibles		**1.7**	1.3
Impairment of goodwill		**28.8**	–
Restructuring costs including redundancy		**4.4**	7.7
Acquisition costs		**–**	4.3
Property onerous lease costs		**4.6**	1.5
Pension credit from curtailment	26	**–**	(0.1)
Adjusted operating profit	5	**4.1**	8.8

Adjusted profit before tax	Note	2012 £m	2011 £m
Loss before tax		**(40.1)**	(9.7)
Amortisation of acquired intangibles		**1.7**	1.3
Impairment of goodwill		**28.8**	–
Restructuring costs including redundancy		**4.4**	7.7
Acquisition costs		**–**	4.3
Property onerous lease costs		**4.6**	1.5
Pension credit from curtailment	26	**–**	(0.1)
Net pension finance costs	26	**2.0**	2.0
Adjusted profit before tax		**1.4**	7.0

The notes on pages 46 to 83 are an integral part of these Financial Statements.

Consolidated statement of comprehensive income

For the year ended 31 March	Note	2012 £m	2011 £m
Loss for the year attributable to the owners of the Company		**(40.4)**	(14.0)
Other comprehensive (expense)/income:			
currency translation gains/(losses) – net of tax [1]	21	**0.1**	(1.1)
actuarial (losses)/gains on defined benefit pension schemes – net of tax [1]	26	**(46.7)**	17.4
Other comprehensive (expense)/income recognised for the year – net of tax		**(46.6)**	16.3
Total comprehensive (expense)/income for the year attributable to the owners of the Company		**(87.0)**	2.3

[1] The tax charge/(credit) on items taken directly to equity is £nil in the current and prior year.

The notes on pages 46 to 83 are an integral part of these Financial Statements.

Balance sheets

As at 31 March	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
ASSETS					
Non-current assets					
Goodwill	13	**41.5**	69.9	**–**	–
Other intangible assets	14	**10.3**	11.7	**–**	–
Property, plant and equipment	15	**3.1**	4.4	**–**	–
Investment in subsidiaries	17	**–**	–	**37.5**	69.0
Trade and other receivables	18	**0.1**	1.3	**–**	3.7
Deferred income tax assets	28	**1.6**	2.3	**–**	–
		56.6	89.6	**37.5**	72.7
Current assets					
Contract work in progress		**–**	0.1	**–**	–
Trade and other receivables	18	**28.6**	31.7	**1.3**	–
Current income tax assets		**0.2**	0.2	**–**	–
Cash and cash equivalents	19	**3.4**	4.0	**–**	–
		32.2	36.0	**1.3**	–
Total assets		**88.8**	125.6	**38.8**	72.7
EQUITY					
Capital and reserves attributable to owners of the Company					
Share capital	20	**14.5**	14.5	**14.5**	14.5
Share premium	20	**–**	–	**–**	–
Merger reserve	21	**82.0**	82.0	**–**	–
Other (deficit)/reserves	21	**(77.0)**	(28.1)	**0.2**	0.1
Retained (deficit)/reserves		**(176.8)**	(138.5)	**16.7**	52.4
Total equity		**(157.3)**	(70.1)	**31.4**	67.0
LIABILITIES					
Non-current liabilities					
Trade and other payables	23	**1.8**	1.7	**–**	1.2
Borrowings	24	**35.2**	30.2	**1.0**	3.0
Retirement benefit obligations	26	**168.5**	121.8	**–**	–
Provisions for liabilities and charges	27	**5.9**	4.7	**–**	–
Deferred income tax liabilities	28	**0.8**	1.2	**–**	–
		212.2	159.6	**1.0**	4.2
Current liabilities					
Trade and other payables	23	**25.2**	32.0	**0.7**	0.9
Borrowings	24	**4.6**	2.1	**5.7**	0.6
Derivative financial instruments	25	**0.5**	0.3	**–**	–
Provisions for liabilities and charges	27	**3.5**	1.3	**–**	–
Current income tax liabilities		**0.1**	0.4	**–**	–
		33.9	36.1	**6.4**	1.5
Total liabilities		**246.1**	195.7	**7.4**	5.7
Total equity and liabilities		**88.8**	125.6	**38.8**	72.7

The notes on pages 46 to 83 are an integral part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 31 July 2012.
Signed on behalf of the Board of Directors.

John Lowry
Interim CEO

Kevin Higginson
CFO

Statement of changes in equity

AEA Technology Group plc Registered in Jersey: 106514

Group	Share capital (note 20) £m	Share premium (note 20) £m	Merger reserve (note 21) £m	Other reserves (note 21) £m	Retained deficit £m	Total equity £m
Balance as at 1 April 2010	2.3	11.7	82.0	(44.8)	(181.4)	(130.2)
Comprehensive expense:						
Loss for the year	–	–	–	–	(14.0)	(14.0)
Total comprehensive expense	–	–	–	–	(14.0)	(14.0)
Other comprehensive income/(expense):						
Currency translation losses	–	–	–	(1.1)	–	(1.1)
Actuarial gains on defined benefit pension schemes	–	–	–	17.4	–	17.4
Total other comprehensive income	–	–	–	16.3	–	16.3
Total comprehensive income/(expense) for the year	–	–	–	16.3	(14.0)	2.3
Transactions with owners:						
Shares issued under Firm Placing, Placing and Open Offer (note 20)	11.1	41.5	–	–	–	52.6
Consideration shares issued	1.1	4.6	–	–	–	5.7
Additional costs of Firm Placing, Placing and Open Offer	–	–	–	–	(0.9)	(0.9)
Capital reduction (note 20)	–	(57.8)	–	–	57.8	–
Fair value of share option schemes (note 21)	–	–	–	0.4	–	0.4
Total transactions with owners	12.2	(11.7)	–	0.4	56.9	57.8
Balance as at 31 March 2011	14.5	–	82.0	(28.1)	(138.5)	(70.1)
Comprehensive expense:						
Loss for the year	**–**	**–**	**–**	**–**	**(40.4)**	**(40.4)**
Total comprehensive expense	**–**	**–**	**–**	**–**	**(40.4)**	**(40.4)**
Other comprehensive (expense)/income:						
Currency translation gains	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Actuarial losses on defined benefit pension schemes	**–**	**–**	**–**	**(46.7)**	**–**	**(46.7)**
Total other comprehensive expense	**–**	**–**	**–**	**(46.6)**	**–**	**(46.6)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(46.6)**	**(40.4)**	**(87.0)**
Transactions with owners:						
Fair value of share option schemes (note 20)	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Transfer of balance related to expired share options	**–**	**–**	**–**	**(2.1)**	**2.1**	**–**
Total transactions with owners	**–**	**–**	**–**	**(2.3)**	**2.1**	**(0.2)**
Balance as at 31 March 2012	**14.5**	**–**	**82.0**	**(77.0)**	**(176.8)**	**(157.3)**

All changes in equity are attributable to the equity holders of the Company.

Statement of changes in equity (continued)

Company	Share capital (note 20) £m	Share premium (note 20) £m	Other reserves (note 21) £m	Retained reserves £m	Total equity £m
Comprehensive expense:					
Loss for the year	–	–	–	(4.5)	(4.5)
Total comprehensive expense	–	–	–	(4.5)	(4.5)
Transactions with owners:					
Issue of shares in AEA Technology Group plc	2.3	11.7	–	–	14.0
Shares issued under Firm Placing, Placing and Open Offer (note 20)	11.1	41.5	–	–	52.6
Consideration shares issued	1.1	4.6	–	–	5.7
Additional costs of Firm Placing, Placing and Open Offer costs	–	–	–	(0.9)	(0.9)
Capital reduction (note 20)	–	(57.8)	–	57.8	–
Fair value of share option schemes	–	–	0.1	–	0.1
Total transactions with owners	14.5	–	0.1	56.9	71.5
Balance as at 31 March 2011	14.5	–	0.1	52.4	67.0
Comprehensive expense:					
Loss for the year	**–**	**–**	**–**	**(35.7)**	**(35.7)**
Total comprehensive expense	**–**	**–**	**0.1**	**(35.7)**	**(35.7)**
Transactions with owners:					
Fair value of share option schemes	**–**	**–**	**0.1**	**–**	**0.1**
Balance as at 31 March 2012	**14.5**	**–**	**0.2**	**16.7**	**31.4**

Statements of cash flows

For the year ended 31 March	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows used in operating activities					
Cash used in operations	29	**(4.3)**	(3.9)	**(3.5)**	(3.7)
Interest paid		**(2.4)**	(1.6)	**(0.1)**	–
Taxes paid		**(0.3)**	(0.8)	**–**	–
Net cash used in operating activities		**(7.0)**	(6.3)	**(3.6)**	(3.7)
Cash flows (used in)/generated from investing activities					
Acquisition of subsidiary, including loan from/(to) subsidiary's previous shareholders		**–**	(48.2)	**1.2**	(49.1)
Dividends received		**–**	–	**2.4**	–
Purchases of other intangibles		**(0.6)**	(0.2)	**–**	–
Purchases of property, plant and equipment		**(0.3)**	(1.5)	**–**	–
Net cash (used in)/generated from investing activities		**(0.9)**	(49.9)	**3.6**	(49.1)
Cash flows (used in)/generated from financing activities					
Repayment of borrowings		**(2.0)**	(17.1)	**(2.0)**	–
Draw-down of borrowings		**9.7**	20.3	**5.1**	3.6
Capital element of finance lease repayments		**(0.5)**	(0.5)	**–**	–
Issue of intra-group loans		**–**	–	**(4.3)**	(2.4)
Proceeds from intra-group loans		**–**	–	**1.2**	1.3
Capital contribution to AEA Technology plc		**–**	–	**–**	(1.4)
Proceeds from new equity issues	20	**–**	51.7	**–**	51.7
Net cash generated from financing activities		**7.2**	54.4	**–**	52.8
Net decrease in cash and cash equivalents		**(0.7)**	(1.8)	**–**	–
Cash and cash equivalents at beginning of year	19	**4.0**	6.0	**–**	–
Exchange gains/(losses) on cash and cash equivalents		**0.1**	(0.2)	**–**	–
Cash and cash equivalents at end of year	19	**3.4**	4.0	**–**	–

Statements of cash flows (continued)

Statement of movement in net debt – alternative performance measures (note 2)

		Group		Company	
		2012	2011	**2012**	2011
Movement in net debt for the year ended 31 March	Note	**£m**	£m	**£m**	£m
Net cash flow generated from/(used in) business operations	5	**3.6**	10.3	**(1.3)**	(0.2)
Restructuring including redundancy costs		**(5.0)**	(4.7)	**(2.2)**	–
Acquisition costs		**–**	(3.6)	**–**	(3.5)
Legacy cash flows		**(1.3)**	(4.1)	**–**	–
Funding of pension deficit		**(1.6)**	(1.8)	**–**	–
Cash used in operations	29	**(4.3)**	(3.9)	**(3.5)**	(3.7)
Net interest and tax paid		**(2.0)**	(2.4)	**(0.1)**	–
Net cash (used in)/generated from investing activities		**(0.9)**	(49.9)	**3.6**	(49.1)
Cancellation of debt		**–**	2.0	**–**	–
Proceeds from new equity issues		**–**	51.7	**–**	51.7
Non-cash financing – facility fees		**(0.6)**	–	**–**	–
Non-cash financing – finance leases		**(0.3)**	(0.4)	**–**	–
Exchange gains on net debt		**–**	0.8	**–**	–
Capital contribution to AEA Technology plc		**–**	–	**–**	(1.4)
Net movement in intra-group loans		**–**	–	**(3.1)**	(1.1)
Net increase in net debt		**(8.1)**	(2.1)	**(3.1)**	(3.6)
Net debt at beginning of year		**(28.3)**	(26.2)	**(3.6)**	–
Net debt at end of year		**(36.4)**	(28.3)	**(6.7)**	(3.6)

Closing net debt comprises:

		Group		Company	
		2012	2011	**2012**	2011
	Note	**£m**	£m	**£m**	£m
Cash at bank and in hand	19	**3.4**	4.0	**–**	–
Current borrowings	24	**(4.6)**	(2.1)	**(5.7)**	(0.6)
Non-current borrowings	24	**(35.2)**	(30.2)	**(1.0)**	(3.0)
Net debt at end of year		**(36.4)**	(28.3)	**(6.7)**	(3.6)

These supplementary disclosures do not form part of the Statement of cash flows and these tables are not included in the notes to the Financial Statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

AEA Technology Group plc ("the Company") and its subsidiaries ("the Group") is one of the world's leading technical energy, sustainability and IT consultancies. The Group has a broad and deep technical knowledge gained through experience working in energy and environmental policy for the UK and US governments, international agencies and blue chip companies. AEA maintains a leading position supporting the public sector and international agencies in climate change, energy, water, data management, economics and knowledge transfer. An overview of the business is given in the Directors' report on pages 1 to 33.

The Company is a public limited company, incorporated and domiciled in Jersey. The address of the registered office is 22 Grenville Street, St Helier, Jersey, JE4 8PX. The Company is listed on the London Stock Exchange.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with IFRS and IFRIC interpretations, as adopted for use within the European Union and Jersey Law 1991 applicable to companies reporting under IFRS. These consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss.

The preparation of Financial Statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the consolidated Financial Statements are summarised in note 3.

Going concern

The Group has a banking facility, which is provided by its sole bank, Lloyds TSB Bank Plc (the "Bank"), to meet its liquidity needs. In addition the Group has a significant pension deficit and is required to agree a suitable funding programme to alleviate this. The Group currently forecasts that it will be unable to generate cash from its core operations to discharge its obligations to both the Bank and the pension scheme.

Recent bank covenant tests have been postponed but the longer term borrowing facility in place at 31 March 2012 can now be removed by the Bank at short notice. However, the Bank continues to be supportive and the Group has obtained the Bank's agreement in principle on the terms for a new money facility to provide an additional secured, short term facility of £5.0 million to fund the Group through to the end of October 2012. Entering into a formal facility agreement will be conditional upon the Group providing security and an ongoing liquidity covenant. The headroom available under these facilities is limited and requires the Group to meet its trading forecasts through this period. The Trustee of the Group's defined benefit pension scheme has agreed to defer all pension payments otherwise due to assist in the Group maintaining appropriate liquidity during this period.

Additional short term funding is expected to be provided to allow the Group to realise value through a sale of all or part of the Group's businesses and assets which it is hoped will enable the Group to agree a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme in a solvent manner.

The Board believes that preparing the Financial Statements on the going concern basis remains appropriate as it is actively pursuing a sale of all or part of the Group's businesses and assets, and believe this will return sufficient value to enable a financial restructuring plan which will discharge its liabilities to the Bank and the pension scheme in a solvent manner. In addition, the Board believes it will be able to finalise the agreement of the £5.0 million short term facility, meet short term cash forecasts and operate within the facilities expected to be provided by the Bank and comply with any related covenants and that it will be able to execute a sale of all or part of the Group's businesses and assets during the period in which facilities are provided by the Bank.

However there can be no certainty that a sale process can be completed in the short term that will enable the discharge of liabilities to the Bank and the pension scheme. Should the Group not maintain the ongoing support of the Bank and pension scheme and execute a financial restructuring plan that provides an appropriate solution for the Bank and pension scheme, and meet its forecast cash requirements it may not have sufficient funds to remain in operational existence. These circumstances indicate the existence of material uncertainties that may cast significant doubt over the Group's ability to continue as a going concern. The Financial Statements do not include any adjustment to the value of balance sheet assets or provision for further liabilities, which would result should the going concern basis not be appropriate.

Application of new standards and interpretations

The following new standards, amendments to existing standards or interpretations are mandatory for the first time for the financial year ending 31 March 2012, but either have no significant impact or are not currently relevant for the Group:

- IAS 24 (revised), 'Related party disclosures', effective for annual periods beginning on or after 1 January 2011;
- IFRIC 14 amendment, 'Prepayments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011;

Notes to the Financial Statements (continued)

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010; and
- Annual improvements to IFRSs (2010), effective for annual periods beginning on or after 1 January 2011.

The following new standards, amendments to existing standards or interpretations have been issued, but are not effective for the financial year ending 31 March 2012 and have not been adopted early:

- IFRS 7 amendment, 'Financial instruments: Disclosures on de recognition', effective for annual periods beginning on or after 1 July 2011, subject to EU endorsement;
- IFRS 7 amendment, 'Disclosures – offsetting financial assets and liabilities', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, subject to EU endorsement;
- IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IFRS 11, 'Joint arrangements', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IFRS 12, 'Disclosure of interests in other entities', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IFRS 13, 'Fair value measurements', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IAS 1 amendment, 'Financial statement presentation', effective for annual periods beginning on or after 1 July 2012 subject to EU endorsement;
- IAS 12 amendment, 'Income taxes on deferred tax', effective for annual periods beginning on or after 1 January 2012, subject to EU endorsement;
- IAS 19 amendment, 'Employee benefits', effective for annual periods beginning on or after 1 January 2013 subject to EU endorsement;
- IAS 27, 'Separate financial statements', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IAS 28, 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement;
- IAS 32 amendment, 'Offsetting financial assets and financial liabilities', effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement.

These standards will require additional disclosures but otherwise will not have a material impact on the Group Financial Statements when they are adopted.

Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures, which are not defined by IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Annual Report and Accounts:

a) Adjusted operating profit and adjusted profit before tax

Beneath the Consolidated income statement adjusted operating profit is separately disclosed. This is defined as operating profit before amortisation of acquired intangibles, impairment of goodwill and other significant items, which includes acquisition, group restructuring and redundancy costs (which include Board and Senior Management recruitment fees) and property onerous lease costs. Profit before tax is also adjusted in the same way, with the additional adjustment to exclude net pension finance costs. A reconciliation of profit before tax to adjusted profit before tax is shown beneath the Consolidated income statement.

b) Movement in net debt

Beneath the Statement of cash flows a Statement of movement in net debt is shown being the movement between opening and closing net debt. An analysis of net debt by Balance sheet heading is also shown.

c) Adjusted earnings per share

Adjusted earnings per share as shown in note 12 is calculated by dividing the adjusted (loss)/profit attributable to owners of the Company by the weighted average number of Ordinary shares in issue during the year.

d) Net cash flow generated from business operations

Beneath the Statement of cash flows in the statement of movement in net debt the 'Cash used in operations' is split into its component parts, representing net cash flow generated from business operations; restructuring including redundancy costs, acquisition costs, legacy cash flows (note 27) and the funding of the pension deficit.

Notes to the Financial Statements (continued)

Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group; they are de-consolidated from the date on which control ceases. The purchase method of accounting is used for the acquisition of subsidiaries of the Group. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets acquired, the difference is recognised directly in the Consolidated income statement. The results of subsidiaries acquired or sold during the year are included in the Consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

Inter-Company transactions, balances and related unrealised gains/losses are eliminated on consolidation. Accounting policies are consistently applied across the Group.

Significant accounting policies

a) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief-operating decision maker ("CODM"). The CODM is the combination of the Interim CEO and the CFO who consider the allocation of resources between operating segments.

b) Foreign currency translation

(i) Functional and presentational currency

The consolidated Financial Statements are presented in pounds sterling (units in millions), which is the Group's presentational currency and the Company's functional currency. This is the currency in which the Group reports to its shareholders.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date at the exchange rates ruling at that point. The gains and losses thus generated and the foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Consolidated income statement unless they are designated as qualifying cash flow hedges, in which case they are recognised directly in reserves.

(iii) Overseas subsidiaries

For consolidation purposes the assets and liabilities of overseas subsidiaries that have a functional currency different to the Group's presentational currency are translated into the Group's presentational currency at the exchange rates ruling at the balance sheet date. The income statements of overseas subsidiaries are translated into the Group's presentational currency at the average rates of exchange during the year. The resulting exchange differences are recognised through the Statement of comprehensive income in a separate component of equity (the "Currency translation reserve", see note 21).

c) Revenue recognition

Revenue represents the total value of income (excluding sales taxes) earned in respect of services rendered to customers and the value of long-term contract work completed. Revenue relates to ordinary activities and is stated after trade discounts. The majority of the Company's revenue is derived from the following types of contracts:

Time and materials

Revenue is recognised based on contracted hourly billing rates as costs are incurred on recoverable labour costs. Materials income is recognised in line with the material costs incurred.

Fixed Price contracts

Revenue is recognised based on the value of work completed under the contract at the balance sheet date against forecast total costs less amounts recognised in previous years where relevant. Value of work completed is calculated based on cost of work completed as a percentage of total forecast costs.

Cost plus fixed fee

Revenue is recognised based on direct and indirect costs incurred plus a fixed fee. Costs that are categorised as direct are recovered in full from the customer. Indirect costs are billed at estimated billing rates that are periodically negotiated with the customer. These are subject to audit by the customer and adjustments are recorded in the year the Group is notified. Anticipated cost overruns or audit adjustments are provided for in the years in which they are identified.

Licences

Income from licences where the underlying intellectual property is secure and upon which the Group will not incur future costs is recognised on the date that the contract commences with the licensee. Where the Group will incur future maintenance and support costs and all components of the

Notes to the Financial Statements (continued)

contract do not operate independently the full contract value is recognised on a straight line basis over the period of the contract. Where the components do operate independently and fair values can be allocated to the individual components each component is treated as if it were a separate contract and revenue recognised accordingly.

Costs and fees recognised relating to work performed on contracts prior to funding being received from the customer or awaiting final closing are included in Receivables from long-term contracts.

Any invoices raised and/or cash received in advance of recognition of the income is included under Deferred income within Trade and other payables.

Long-term contracts
The revenue in respect of long-term contracts represents the cost appropriate to the stage of completion of each contract plus attributable profits, less amounts recognised in previous years where relevant. The unbilled element of this revenue is included in Trade and other receivables as Receivables from long-term contracts.

d) Government grants

Capital based government grants are included within Accruals and Deferred income in the Balance sheet and credited to operating profit over the expected useful economic lives of the assets to which they relate. Revenue based government grants are credited to operating profit to match the expenditure to which they relate.

e) Other operating income

Income from third parties that is not in respect of the Group's ordinary trading activities or from investment activities is reported within Other operating income. This principally comprises the recovery of property and other costs from previously discontinued businesses under transitional service agreements, and the recovery of pension scheme administration costs from the trustees of the AEA Technology plc's defined benefit pension scheme.

f) Income tax

The net income tax expense represents the sum of current income tax and deferred income tax.

The current income tax is based on the taxable profit for the year together with adjustments, where necessary, in respect of prior years. Taxable profit differs from profits as reported in the Consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or tax deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the Balance sheet liability method. Deferred income tax liabilities are generally recognised for all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities that affect neither the taxable profit nor the accounting profit.

Deferred income tax liabilities are recognised for taxable temporary differences arising on the impairment of investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply in the year when the liability is settled or the asset is realised. Deferred income tax is charged or credited to the Consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when they relate to income tax levied by the same tax authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group and Company's share of identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is identified separately on the Group Balance sheet. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to Cash Generating Units (CGUs) for the purposes of impairment testing.

h) Intangible assets

(i) Customer contracts and relationships

Customer contracts and relationships acquired in a business combination are capitalised at fair value as at the date of acquisition. They are amortised on a straight-line basis over five to fifteen years and are stated at fair value less accumulated amortisation.

(ii) Development costs

Costs incurred on development projects (relating to the design and testing of new or improved products and services) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technical feasibility and costs can be measured reliably. Other development expenditure is recognised as an expense. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of commercial sale of the product or, if earlier, when the asset is ready for use in the manner intended on a straight-line basis over the period of their expected benefit, not exceeding twenty years.

(iii) Other intangibles

Other intangibles acquired separately are stated at cost less accumulated amortisation. Intangible assets, excluding development costs, that are created within the business are not capitalised and expenditure is charged against profit or loss in the year in which it is incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are stated at cost less accumulated amortisation.

Amortisation on other intangibles is charged to the Consolidated income statement on a straight-line basis over the estimated useful lives of the intangible assets (five to ten years).

Intangible assets are tested for impairment whenever there is an indication of impairment. Useful lives are reviewed on an annual basis and adjustments, where applicable, are made on a prospective basis.

i) Property, plant and equipment

All property, plant and equipment are shown at cost less accumulated depreciation and impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Leasehold land and buildings:	up to the period of the lease
Plant and equipment:	up to ten years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying value is written down immediately to its recoverable amount if the carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset at the time of the disposal and are recognised within 'Other losses – net' within the Consolidated income statement.

j) Investment in subsidiary

The Company's investment in its subsidiary is shown at cost less any provision for impairment. The cost of the investment includes expenditure directly related to the acquisition of the investment in the subsidiary. At each balance sheet date the Group assesses whether or not there is any evidence of impairment. During the period the investment that the Company has in AEA Technology Intermediate (UK) Limited was impaired by £31.6 million to the fair value of the underlying impaired net assets of AEA Technology Intermediate (UK) Limited due to the impact that the poor trading performance in the US segment had on the carrying value of the investment in the segment.

k) Contract work in progress

Contract work in progress (WIP) is valued at the cost of purchases, less the cost of work invoiced on incomplete contracts and less foreseeable losses.

Contract WIP relates to work performed on contracts where revenue cannot be recognised.

l) Trade and other receivables

Trade and other receivables are stated initially at fair value then measured at amortised cost, using the effective interest method, less provisions for impairment. Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows, discounted where appropriate. Any impairment required is recorded in the income statement.

m) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements (continued)

n) Long-term contracts

Where the outcome of a long-term contract can be estimated reliably, and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured based on the value of work completed as a proportion of the total value of work to be provided. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a long-term contract cannot be estimated reliably contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the year in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

o) Leases

Costs in respect of operating leases are charged to the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Assets acquired under finance leases are capitalised and the outstanding future lease obligations, net of finance charges, are shown as borrowings. Each finance lease payment is allocated between the reduction in the outstanding liability and finance charges. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

p) Employee benefits

(i) Pension obligations

The Group operates a defined contribution pension scheme ("the UK Plan"). The AEA defined benefit pension scheme ("the Scheme") was closed to future accrual on 31 July 2009. The US operating subsidiaries, Project Performance Corporation Inc and ERG Inc, operate defined contribution 401(K) profit sharing plans ("the US Plans").

For the UK Plan, the assets are held separately from those of AEA Technology plc and the Company in individual accounts under the control of the pension provider. The only obligation of AEA Technology plc and the Company with respect to the UK Plan is to make the specified contributions.

For the US Plans the assets are held separately from those of both Project Performance Corporation Inc and ERG Inc in funds under the control of trustees and insurance companies. The only obligation of Project Performance Corporation Inc and ERG Inc is to make the specified contributions.

For the Scheme, the liability recognised in the Balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of the Scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the Consolidated statement of comprehensive income in the period in which they arose.

(ii) Share-based plans

The Group runs a number of equity-settled, share-based employee compensation plans. The options are subject to three to five-year service vesting conditions. The fair value at the grant date of the option is recognised as an employee benefit expense on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value is measured by use of the Black-Scholes or Monte Carlo valuation models, depending on the type of scheme. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Where relevant the value of the options has also been adjusted to take into account any market conditions applicable to the award.

SAYE options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

The cost is recognised in the share option reserve. When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When awards have expired and have not been exercised then the credits held in the share options reserve are transferred to retained deficit.

(iii) Short-term employee benefits

Accruals are included to reflect the cost of short-term compensation to employees for absences such as paid annual leave.

q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle the obligation.

Notes to the Financial Statements (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date and are discounted to present value where the effect is material.

Provisions were made for the future costs arising in respect of the events discussed in note 27.

r) Derivative financial instruments

The Group uses various derivative instruments to manage its exposure to foreign exchange rate risk and interest rate fluctuations, including foreign currency forward contracts and floating to fixed interest rate swaps. Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the balance sheet date. Changes in the fair value of forward exchange contracts are recognised immediately in the Consolidated income statement within administrative expenses. Changes in the fair value of interest rate swaps are recognised immediately in the Consolidated income statement within finance income or finance costs, reported as "Fair value losses on financial instruments at fair value through profit or loss". Further details of the derivative financial instruments are given in note 25.

s) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand and cash held in on-demand bank accounts, net of bank overdrafts, as well as highly liquid investments that are readily convertible to known amounts of cash with a maturity of less than three months. This definition is also used for the Statement of cash flows.

t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Group anticipates that the balance is expected to remain outstanding 12 months after the balance sheet date.

u) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

v) Risk management policies

The risk management policies are documented in the financial performance section of the Directors' report and in note 4.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In applying the Group's accounting policies, previously described, management is required to make certain estimates and judgments concerning the future. These estimates and judgments are regularly reviewed and updated as necessary. The estimates and judgments that have the most significant effect on the amounts included in these consolidated Financial Statements are as follows:

a) Pensions

The net liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to longevity, inflation, projected return on investments, salary increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligation recognised. Further details on these estimates are set out in note 26.

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the Cash Generating Units ("CGUs") to which goodwill has been allocated. The calculation of value in use requires estimates to be made of the future cash flows to arise from the CGUs and selection of appropriate discount rates to calculate present values. An impairment of £28.8 million was made to goodwill during the year and the carrying value is £41.5 million (2011: £69.9 million). An increase of 1.0% to the discount rates used (note 13) would require a further impairment of £3.2 million on the goodwill held in the PPC CGU and £6.3 million in the ERG CGU. A decrease of 10% per annum in the growth rates forecast within the financial budgets for the next three years would require a further impairment of £2.2 million in the PPC CGU and £4.3 million in the ERG CGU. If the long term growth rate were adjusted downwards from 3% to 2.7%, then this would require a further additional impairment of £1.0 million in the PPC CGU and £1.9 million in the ERG CGU.

c) Provisions in respect of onerous contracts

The Group has certain contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. These contracts as detailed in note 27 are in respect of the provision of services. Provisions for these onerous contracts are made for the net cost of exiting the contract, which is the lower of the estimated cost of fulfilling the contract and the estimated compensation or penalties arising from failure to fulfill it. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 27), prior to it being settled.

d) Provisions in respect of warranties and indemnities

The Group has potential liabilities in respect of claims under warranties and indemnities. Management is required to estimate the potential exposure in respect of such claims. A determination of the amount of provisions required, if any, is based on a careful analysis of each individual issue with the assistance of outside legal counsel where appropriate. However, actual claims incurred could differ from the original estimates. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 27), prior to it being settled.

Notes to the Financial Statements (continued)

e) Long-term contracts

Profits are recognised on long-term contracts once the outcome of the contract can be assessed with reasonable certainty. An estimate is made of the proportion of work completed to date and an appropriate estimate of the profit attributable to this work is recognised. The estimates are based on management reviews of the actual proportion of work completed and profit margins.

An asset of £13.3 million (2011: £15.8 million) is held on the Balance sheet in respect of the estimated revenue recognised on long-term contracts in progress (note 18). If management's estimate of the proportion of the cost of work done upon which it is appropriate to recognise revenue were to increase/decrease by 10 percentage points, the carrying value of the receivable from long-term contracts would increase/decrease by £1.0 million, and profit recognised would increase/decrease by less than £1.0 million. A reasonable change in the estimate of profit attributable to this work would have minimal impact on the profit recognised.

Where there is objective evidence of a recoverability risk then a provision for impairment of receivables from long-term contracts is recognised. During the period a provision of £0.5 million has been made against accrued income with a specific customer and a further £0.2 million with other customers.

f) Deferred income tax

Deferred income tax assets have been recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. Any revisions to management's estimate of future taxable profit will result in a proportional change to the deferred income tax asset.

g) Legal and other disputes

The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group assesses the likelihood of any adverse judgments or outcomes, and the potential costs, based on a careful analysis of each individual issue with the assistance of outside legal counsel where appropriate. Where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome, then a provision for the amount is made (note 27). No provisions have been made where no reasonable estimate of the likely outcome can be made. Any changes in costs compared to those currently estimated by management will result in an equivalent change in the carrying liability (note 27), or the creation of a liability, prior to it being settled.

4 FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of foreign exchange risk, cash flow and interest rate risk, liquidity risk, credit risk, capital risk and estimates of fair value. The Group has in place a risk management programme that seeks to limit the potentially adverse effects of unpredictable movements in financial markets on financial performance.

The Group's finance department implements the policies set by the Board of Directors. The department has a policy and procedures manual that sets out specific guidelines to manage foreign exchange risk, cash flow and interest rate risk, liquidity risk and credit risk and circumstances where it would be appropriate to use financial instruments to manage these. The basic principles are detailed below.

Treasury management

The Group uses various financial instruments in order to manage the exposures that arise in its business operations as a result of movements in financial markets. The Group does not undertake speculative foreign exchange or interest rate dealings for which there is no underlying exposure. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. All treasury activities are focused on the management of risk. The main risk continues to be movements in rates of interest and movements in foreign currency exchange rates. The CFO, who operates within written policies approved by the Board and within the internal control framework, manages all such exposures.

a) Market risk

(i) Foreign exchange risk

During the year ended 31 March 2012, the Group operated 65% (2011: 51%) in the US market and the majority of its sales and purchases were transacted in each entity's own functional currency. However, the element of trading that is transacted in foreign currencies does expose the Group to foreign exchange risk. The Group is also exposed to movements in exchange rates for the translation of net assets and income statements of foreign subsidiaries and for the translation of foreign currency assets and liabilities held in the UK, primarily in US Dollar denominated borrowings and US Dollar denominated receivables and payables from subsidiaries.

The Group is exposed to a number of currencies on transactions. The most significant transactional currency exposures are the US Dollar and the Euro. Where currency balances in receivables and payables cannot be offset, the Group seeks to hedge its transactional exposure by the use of forward currency contracts. The objective is to minimise the impact of fluctuations in exchange rates on future transactions and cash flows. The Group has not designated these instruments as cash flow hedges and they are accounted for at fair value through profit or loss.

The Group uses sensitivity analysis to measure the estimated effect on post tax profit of a strengthening or weakening in Sterling against the US Dollar and Euro by 20% from the rates applicable at 31 March 2012. The sensitivity analysis uses 20% as this is considered to be a reasonably possible amount by which the exchange rate could move based on the movements in these exchange rates over recent times. The effect on post tax profit has been calculated by applying the change in exchange rates to foreign currency exposures in existence at the balance sheet date.

At 31 March 2012, if Sterling had strengthened/weakened by 20% against both currencies, with all other variables held constant, equity and post tax profit for the year would be lower/higher by £0.2 million (2011: £0.1 million). Foreign exchange translation of Euro denominated trade receivables, trade payables and cash held in Euros, contributed £0.1 million (2011: £0.1 million) to this movement. US Dollar denominated inter-Company payables and net US Dollar cash balances contributed £0.1 million (2011: £nil).

The US Dollar to Sterling Balance Sheet exchange rate was 1.5978 at 31 March 2012 (31 March 2011: 1.603). The US Dollar to Sterling Income Statement rate was 1.6014 for the year ended 31 March 2012 (year ended 31 March 2011: 1.556).

(ii) Cash flow and interest rate risk

The Group's interest rate risk arises from borrowings. The Group's primary loan facility is at a variable rate of interest (dependent upon the movement in the London Interbank Offered Rate) and exposes the Group to interest rate risk. The Group's policy is to hedge the floating rate debt and it manages these risks by using floating-to-fixed interest rate swaps, which have the economic effect of converting borrowings from floating rate to fixed rate. As at the balance sheet date £23.2 million (2011: £12.5 million) of floating rate borrowings have been swapped into fixed rate debt through the use of US dollar denominated interest rate swaps of a notional amount of $37.0 million (2011: $20.0 million). Under these swap instruments the Group agrees with the other parties to exchange, at monthly intervals, the difference between the floating rate and the fixed rate interest amounts that are payable/receivable on the nominal amount of swapped borrowings.

The Group uses sensitivity analysis to measure the estimated effect on post tax profit of an increase or decrease of 1% in market interest rates (100 basis points), from the rates applicable at 31 March 2012. This figure is considered to be a reasonably possible amount by which interest rates could move.

Assumptions made in these calculations are as follows:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Any impact on retirement benefit obligations has been excluded;
- The effect on post tax profit and equity has been calculated by applying the change in market risk to exposures in existence at the balance sheet date.

Under these assumptions a 1% increase or decrease in market interest rates, with all other variables held constant, would decrease/increase in equity and post tax profit for the year by £0.1 million (2011: £0.1 million). This is mainly as a result of the higher/lower interest expense on the net amount of floating rate borrowings not covered by interest rate swaps.

b) Liquidity risk

The Group's liquidity risk relates primarily to the management of its availability of funding and ability to repay borrowings and trade and other payables. Entities within the Group are required by the Group's treasury function to maintain and regularly update detailed cash forecasting models. The treasury function supports the cash flow needs of the underlying business and maintains financial flexibility through utilising the available funds under the Group's revolving credit facility (note 24). As at 31 March 2012 £2.9 million of this facility remains unutilised.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The derivative financial instruments settled net are interest rate swaps. The Group pays or receives net amounts under "pay fixed, receive floating" interest rate swaps. The amounts receivable under floating rates have been calculated using the interest rates in place at the balance sheet dates.

The amounts disclosed in the table below are the contractual undiscounted cash outflows (unless stated) and will not, in some cases, agree to the carrying balance sheet amounts.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2012					
Derivative financial instruments:					
derivative financial instruments settled net	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Non-derivative financial liabilities:					
unsecured bank and other loans	**(4.3)**	**(35.0)**	**–**	**–**	**(39.3)**
finance lease liabilities	**(0.3)**	**(0.2)**	**–**	**–**	**(0.5)**
trade payables	**(6.3)**	**–**	**–**	**–**	**(6.3)**
accruals – cash settled	**(9.3)**	**–**	**–**	**–**	**(9.3)**
provision for vacant property leases	**(1.5)**	**(1.2)**	**(1.9)**	**(0.2)**	**(4.8)**

Notes to the Financial Statements (continued)

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 March 2011					
Derivative financial instruments:					
derivative financial instruments settled net	(0.3)	–	–	–	(0.3)
Non-derivative financial liabilities:					
unsecured bank and other loans	(1.7)	(30.0)	–	–	(31.7)
finance lease liabilities	(0.4)	(0.2)	–	–	(0.6)
trade payables	(10.4)	–	–	–	(10.4)
accruals – cash settled	(11.3)	–	–	–	(11.3)
provision for vacant property leases	(0.5)	(0.4)	–	–	(0.9)

c) Credit risk

The Group's credit risk arises primarily in respect of outstanding receivables and committed transactions with private sector customers. The majority of the Group's sales and trade receivables relate to public sector organisations and hold a low credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before contracts are agreed. The amount of exposure to any individual counterparty is subject to an agreed limit. The Group monitors and manages its exposure to counterparties.

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

d) Capital risk

The Group's objective when managing capital is to ensure that funds are raised in an appropriate, cost-effective manner considering the scale and timeframe of the funding requirement. The Group's primary concern is to maintain its ability to continue as a going concern in order to provide returns for shareholders and stakeholders in the Company.

The Group takes legal, financial and tax advice when considering changes to the capital structure of the Group.

The Group considers its total capital deficit to be the sum of equity deficit and net borrowings, as follows:

	2012 £m	2011 £m
Equity deficit	**157.3**	70.1
Net borrowings	**(36.4)**	(28.3)
Total capital deficit	**120.9**	41.8

Changes to equity during the year are detailed in notes 20 and 21. Net borrowings are the sum of Total borrowings as detailed in note 24 and Cash and cash equivalents as detailed in note 19.

The Group is not subject to any externally imposed capital requirements.

e) Fair value estimation

The fair value of the Group's derivative financial instruments is determined by using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The Group obtains these fair values from the relevant contracting banks. The fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet dates obtained from the relevant contracting banks.

The carrying values less impairment provisions of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 SEGMENTAL INFORMATION

The Chief Operating Decision Maker (CODM) is the combination of the Interim CEO and the CFO. The reports reviewed by them, and upon which they allocate resources, are based upon the reportable segments of Europe and the US. The US constitutes two operating segments, being PPC and ERG, which both provide a similar consulting service, operate in a similar market and both have the US Federal Government as the primary customer. Due to these similar economic characteristics they have been amalgamated into one reportable segment. Europe is a reportable segment and an operating segment.

Notes to the Financial Statements (continued)

The measure of reported segmental profit or loss used by the CODM to assess the performance of the segments is adjusted operating profit. This measure excludes the effect of amortisation of acquired intangibles, impairment of goodwill and other significant items, as defined in note 2 'Alternative performance measures'.

The Group has only one service, being that of consultancy, policy support, programme and data management.

All amounts provided to the CODM are measured in accordance with the Group's accounting policies as stated in note 2 and are therefore consistent with the amounts presented in the Financial Statements. Any sales between segments are carried out at arm's length.

The revenue and adjusted operating profit generated by each of the Group's segments, together with the depreciation and amortisation charge and impairment losses for each segment, are summarised as follows:

	2012 £m	2011 £m
Europe	**39.0**	54.7
US	**71.3**	59.0
Total revenue	**110.3**	113.7

	2012 £m	2011 £m
Europe	**4.7**	4.4
US	**1.7**	7.2
Total segmental adjusted operating profit	**6.4**	11.6
Corporate centre	**(2.3)**	(2.8)
Total adjusted operating profit	**4.1**	8.8

	2012 £m	2011 £m
Europe	**0.8**	1.2
US	**0.9**	0.6
Total depreciation and amortisation charged in adjusted operating profit	**1.7**	1.8

	2012 £m	2011 £m
Europe	**–**	–
US	**29.0**	–
Total impairment losses charged in adjusted operating profit	**29.0**	–

Impairment losses are made up of goodwill impairment of £28.8 million (2011: nil) and £0.2 million (2011: nil) impairment of plant and equipment.

Net cash flow generated from business operations by segment is as follows:

	2012 £m	2011 £m
Europe	**4.4**	4.4
US	**3.3**	8.6
Net cash flow generated from business operations	**7.7**	13.0
Corporate centre	**(4.1)**	(2.7)
Total net cash flow generated from business operations	**3.6**	10.3

A reconciliation from segmental net cash flow generated from business operations to cash used in operations is given within the alternative performance measures, movement in net debt shown beneath the Statement of cash flows.

Reportable segment assets and liabilities represent the operational working capital balances of each of the reportable segments.

Notes to the Financial Statements (continued)

Total reportable segment assets are as follows:

	2012 £m	2011 £m
Europe	**8.4**	9.1
US	**18.8**	20.7
Total reportable segment assets	**27.2**	29.8

Total reportable segment liabilities are as follows:

	2012 £m	2011 £m
Europe	**9.6**	14.0
US	**9.0**	7.8
Total reportable segment liabilities	**18.6**	21.8

A reconciliation of total segmental adjusted operating profit to loss before tax is as follows:

	2012 £m	2011 £m
Total segmental adjusted operating profit	**6.4**	11.5
Corporate centre	**(2.3)**	(2.7)
Amortisation of acquired intangibles	**(1.7)**	(1.3)
Impairment of goodwill	**(28.8)**	–
Restructuring costs including redundancy	**(4.4)**	(7.7)
Property onerous lease costs	**(4.6)**	(1.5)
Acquisition costs	**–**	(4.3)
Investment income	**–**	0.1
Pension credit from curtailment	**–**	0.1
Net finance costs	**(4.7)**	(3.9)
Loss before tax	**(40.1)**	(9.7)

Reportable segment assets are reconciled to total assets as follows:

	2012 £m	2011 £m
Reportable segment assets	**27.2**	29.8
Non-current assets	**56.6**	89.6
Current assets:		
contract work in progress	**–**	0.1
other receivables	**1.4**	1.9
current income tax assets	**0.2**	0.2
cash and cash equivalents	**3.4**	4.0
Total assets per Balance sheet	**88.8**	125.6

Reportable segment liabilities are reconciled to total liabilities as follows:

	2012 £m	2011 £m
Reportable segment liabilities	**18.6**	21.8
Non-current liabilities	**212.2**	159.6
Current liabilities		
other payables	**6.6**	10.2
borrowings	**4.6**	2.1
derivative financial instruments	**0.5**	0.3
provisions for liabilities and charges	**3.5**	1.3
current income tax liabilities	**0.1**	0.4
Total liabilities per Balance sheet	**246.1**	195.7

Notes to the Financial Statements (continued)

Entity-wide disclosures

The following table shows external revenue by country based on the destination of service. Revenues are disclosed for the UK, the US and other countries in total.

	2012 £m	2011 £m
UK	**33.5**	49.0
US	**71.2**	58.5
Other	**5.6**	6.2
Total revenue	**110.3**	113.7

The locations of non-current assets, other than deferred income tax assets, are as follows:

	2012 £m	2011 £m
UK	**2.2**	3.9
US	**52.8**	83.4
Non-current assets	**55.0**	87.3

Revenues of £17.9 million (2011: £24.5 million) are derived from a single external customer attributable to the Europe segment. Revenues of £55.7 million (2011: £49.6 million) are derived from a single external customer attributable to the US segment. These revenues are considered to be from single customers as they are from numerous departments and agencies under the control of the UK or US national governments.

6 OTHER OPERATING INCOME

	2012 £m	2011 £m
Recovery of pension scheme administration costs	**1.1**	1.1
Other [1]	**0.5**	2.1
	1.6	3.2

[1] Other relates to the recovery of rental costs from sublet property

7 OPERATING LOSS

The following items have been charged within operating loss:

	2012 £m	2011 £m
Employee benefit expense	**61.5**	52.3
Sub-contractor costs	**23.2**	29.2
Operating lease payments	**5.3**	5.8
Amortisation of intangibles (note 14)	**1.9**	1.5
Impairment of goodwill (note 13)	**28.8**	–
Depreciation of plant, property and equipment (note 15)	**1.5**	1.6
Impairment of plant, property and equipment (note 15)	**0.2**	0.8
Other losses – net (note 8)	**0.1**	–
Acquisition costs	**–**	4.3
Restructuring costs including redundancy	**4.4**	7.7
Property onerous lease costs	**4.6**	1.5
Other external charges	**15.8**	18.1
Total cost of sales, selling and marketing costs and administrative expenses	**147.3**	122.8

Notes to the Financial Statements (continued)

Fees payable to Company's Auditors and its associates	2012 £m	2011 £m
Fees for other services supplied pursuant to legislation	–	1.0
Other services relating to taxation	–	0.4
Services relating to corporate finance transactions entered into or proposed to be entered into on behalf of the Company or any of its associates	0.3	0.4
All other services	0.6	0.3
	0.9	2.1
Statutory audit (Group consolidation and parent Company)	0.2	0.2
	1.1	2.3

A description of the work of the Audit Committee is set out in the Audit Committee Report on pages 34 and 35 of the Annual Report and Accounts, which includes an explanation of how Auditor objectivity and independence is safeguarded when the Auditors provide non-audit services.

Employee benefit expense charged to the Consolidated income statement	2012 £m	2011 £m
Wages and salaries	57.5	49.9
Social security costs	4.3	3.8
Share options (note 21)	(0.2)	0.4
Pension costs – defined contribution plans (note 26)	3.4	3.2
Pension costs – defined benefit schemes (note 26)	2.0	1.9
	67.0	59.2

Directors' remuneration details are given in the Report on Directors remuneration on pages 25 to 33.

Number of employees

Average monthly headcount (including Executive Directors)	2012 Number	2011 Number
Consultants	620	460
Technical specialists	238	248
Management and services	172	199
Sales and marketing	17	29
	1,047	936

8 OTHER LOSSES – NET

	2012 £m	2011 £m
Net foreign exchange losses	0.1	–
	0.1	–

9 FINANCE INCOME

	2012 £m	2011 £m
Expected return on defined benefit pension scheme assets (note 26)	20.6	21.2
	20.6	21.2

10 FINANCE COSTS

	2012 £m	2011 £m
Interest on bank overdrafts and loans	2.5	1.7
Interest on finance leases	–	0.1
Fair value losses on financial instruments at fair value through profit or loss: interest rate swaps	0.2	0.1
Accretion of discount on defined benefit pension scheme obligations (note 26)	22.6	23.2
	25.3	25.1

Notes to the Financial Statements (continued)

11 INCOME TAX

	2012 £m	2011 £m
UK corporation tax at 26% (2011: 28%)	–	(0.1)
Overseas tax charge	–	1.0
Deferred income tax – origination and reversal of temporary differences (note 28)	0.3	3.4
Income tax expense	**0.3**	4.3

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the loss of the Group as follows:

	2012 £m	2011 £m
Loss before tax	**(40.1)**	(9.7)
Tax calculated at domestic tax rates applicable to (loss)/profits in respective countries	(14.8)	(2.3)
Income not subject to tax	(0.9)	–
Deferred tax asset not recognised on impairment losses	11.0	–
Derecognition of deferred tax liability on impairment losses	(1.2)	–
Expenses not deductible for tax purposes	0.3	3.0
Current tax losses for which no deferred tax asset was recognised	3.5	1.9
Overseas tax	0.3	0.1
Derecognition of previously recognised tax losses	2.1	1.6
Income tax expense	**0.3**	4.3

12 EARNINGS PER SHARE

Details of basic, diluted and adjusted earnings per share are set out below.

Basic

Basic earnings per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of Ordinary shares in issue during the year.

	2012	2011
Loss attributable to owners of the Company (£ million)	(40.4)	(14.0)
Weighted average number of Ordinary shares in issue (million)	1,453.6	1,173.6
Basic loss per share (pence per share)	**(2.8)p**	(1.2)p

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares in issue to assume conversion of all potential dilutive Ordinary shares. The calculation is performed to determine the number of shares that could have been acquired at fair value determined as the average annual market share price of the Company's shares based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of share options to give the number of shares deemed to be issued at nil consideration. These dilutive shares are added to the weighted average number of Ordinary shares in issue.

	2012	2011
Loss attributable to owners of the Company (£ million)	**(40.4)**	(14.0)
Weighted average number of Ordinary shares in issue (million)	1,453.6	1,173.6
Adjustment for share options (million)	–	–
Weighted average number of Ordinary shares for diluted earnings per share (million)	**1,453.6**	1,173.6
Diluted loss per share (pence per share)	**(2.8)p**	(1.2)p

Notes to the Financial Statements (continued)

Adjusted – alternative performance measures (note 2)

The basic and adjusted earnings per share for adjusted earnings are calculated as follows:

	2012	2011
Loss attributable to owners of the Company (£ million)	**(40.4)**	(14.0)
Amortisation of acquired intangibles (£ million)	**1.7**	1.3
Tax benefit of amortisation of acquired intangibles (£ million)	**(0.4)**	(0.6)
Impairment of goodwill (£ million)	**28.8**	–
Tax cost related to impairment of goodwill (£ million)	**(1.2)**	–
Restructuring costs including redundancy (£ million)	**4.4**	7.7
Tax cost related to restructuring costs (£ million)	**(0.2)**	(1.7)
Property onerous lease costs (£ million)	**4.6**	1.5
Acquisition costs (£ million)	**–**	4.3
Pension credit from curtailment (£ million)	**–**	(0.1)
Net pension finance costs (£ million)	**2.0**	2.0
Adjusted (loss)/profit attributable to owners of the Company (£ million)	**(0.7)**	0.4
Weighted average number of Ordinary shares in issue (million)	**1,453.6**	1,173.6
Basic adjusted earnings per share (pence per share)	**0.0p**	0.0p

	2012	2011
Loss attributable to owners of the Company (£ million)	**(40.4)**	(14.0)
Amortisation of acquired intangibles (£ million)	**1.7**	1.3
Tax benefit of amortisation of acquired intangibles (£ million)	**(0.4)**	(0.6)
Impairment of goodwill (£ million)	**28.8**	–
Tax cost related to impairment of goodwill (£ million)	**(1.2)**	–
Restructuring costs including redundancy (£ million)	**4.4**	7.7
Tax cost related to restructuring costs (£ million)	**(0.2)**	(1.7)
Property onerous lease costs (£ million)	**4.6**	1.5
Acquisition costs (£ million)	**–**	4.3
Pension credit from curtailment (£ million)	**–**	(0.1)
Net pension finance costs (£ million)	**2.0**	2.0
Adjusted (loss)/profit attributable to owners of the Company (£ million)	**(0.7)**	0.4
Weighted average number of Ordinary shares in issue (million)	**1,453.6**	1,173.6
Adjustment for share options (million)	**–**	1.1
Weighted average number of Ordinary shares for diluted adjusted earnings per share (million)	**1,453.6**	1,174.7
Diluted adjusted earnings per share (pence per share)	**0.0p**	0.0p

13 GOODWILL

Group	**2012 £m**	2011 £m
Cost		
At 1 April	**69.9**	32.7
Additions	**–**	39.3
Foreign exchange	**0.4**	(2.1)
At 31 March	**70.3**	69.9
Accumulated impairment		
At 1 April	**–**	–
Impairment losses	**28.8**	–
At 31 March	**28.8**	–
Net book value at 31 March	**41.5**	69.9

Impairment tests for goodwill

For the purpose of performing impairment reviews, goodwill has been allocated to the Group's Cash Generating Units ("CGU") identified according to segment as presented as follows:

	2012 £m	2011 £m
Europe	–	16.4
PPC	31.0	14.5
ERG	39.3	39.0
	70.3	69.9

The goodwill previously allocated to the European CGU has been reallocated in full to the PPC CGU during the period.

No intangible assets other than goodwill have indefinite useful lives. The impairment reviews compare the carrying value of each CGU, including allocated goodwill, with the present value of future cash flows arising from the use of assets in the unit (value in use). The key assumptions for the value in use calculations are those regarding discount rates and growth rates. As described in the Business and performance review, continued spending cuts and tightened fiscal policy in the US has meant that the strategic vision for the Group has been more difficult to execute than previously expected which led to a profit warning being issued in January 2012. This has led the group to revise its assumptions around cash flow forecasts and growth rates in the near term, and created an impairment in the second half of the year ended 31 March 2012. There is inherently an element of judgement applied in arriving at these assumptions. Sensitivities to a movement in the key assumptions are provided in note 3 to these Financial Statements.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The revenue growth rates over this period are assumed to average 7.0% and 5.5% per annum for PPC and ERG, respectively, underpinning growth in profitability. This assumes success is made towards implementing the Group's new business plan. Subsequent cash flows are extrapolated into perpetuity (as appropriate for such long-term businesses) based on an estimated long-term growth rate of 3.0% (2011: 2.3%). This rate reflects inflation rates and is in line with long-term growth rates for the industry.

The discount rates are derived from the Group Weighted Average Cost of Capital, calculated as 9.7% (2011: 9.9%) for the PPC and ERG CGUs and 9.9% for the European CGU in 2011, which are then adjusted based upon a long-term assessment of the average cost of equity and debt of comparable companies within the market and territories that the Group operates.

This gives a post-tax discount rate that is then applied to the cash flow projections, which include tax cash flows at the statutory rate for the relevant country. The discount rates used are equivalent to pre-tax discount rates as follows:

	2012 %	2011 %
Europe	N/A	12.2
PPC and ERG	13.6	14.9

For the PPC CGU poor trading in the current period resulting from the failure to secure certain contracts, combined with the loss of the other contracts in the IT consulting business based in Washington, has led the Board to revise projections used to assess impairment in previous periods. The result of the impairment review is that an impairment loss of £17.5 million has been recognised against the goodwill in the US CGU during the year to reduce the carrying value to the value in use, leaving a net book value of £13.5 million of goodwill in the PPC CGU at 31 March 2012. The net book value of goodwill in the ERG CGU at 31 March 2012 is £28.0 million (2011: Europe £16.4 million, PPC £14.5 million, ERG £39.0 million) following an impairment loss of £11.3 million having been recognised against the goodwill to reduce the carrying value to value in use. This impairment loss in ERG arises from more modest growth rates forecast for the US markets than previously assumed. The total impairment loss of £28.8 million has been charged to administrative expenses in the Consolidated income statement.

The Board has assessed the carrying value of the CGUs on the value in use basis and do not believe this is materially different to the fair value less cost to sell assessment.

Notes to the Financial Statements (continued)

14 OTHER INTANGIBLE ASSETS

Group	Customer contracts/ relationships £m	Product development costs £m	Other intangibles £m	Total £m
Cost				
At 1 April 2010	6.0	0.5	0.3	6.8
Additions	–	–	0.2	0.2
Disposals	–	(0.1)	(0.1)	(0.2)
Acquisition of a subsidiary	8.7	–	0.1	8.8
Foreign exchange	(0.4)	–	–	(0.4)
At 31 March 2011	14.3	0.4	0.5	15.2
Additions	**–**	**0.1**	**0.4**	**0.5**
At 31 March 2012	**14.3**	**0.5**	**0.9**	**15.7**
Accumulated amortisation				
At 1 April 2010	2.0	–	0.2	2.2
Charge for year	1.3	0.1	0.1	1.5
Foreign exchange	(0.2)	–	–	(0.2)
At 31 March 2011	3.1	0.1	0.3	3.5
Charge for year	**1.7**	**0.1**	**0.1**	**1.9**
At 31 March 2012	**4.8**	**0.2**	**0.4**	**5.4**
Net book value at 31 March 2012	**9.5**	**0.3**	**0.5**	**10.3**
Net book value at 31 March 2011	11.2	0.3	0.2	11.7
Net book value at 1 April 2010	4.0	0.5	0.1	4.6

On the acquisition of ERG Inc customer contracts and relationships of £8.7 million were recognised. These have a carrying amount of £7.9 million as at 31 March 2012 (31 March 2011: £8.5 million) and a remaining amortisation period of 13 years and seven months. Customer contracts and relationships of £1.6 million (2011: £2.7 million) recognised on a previous acquisition have a remaining amortisation period of one year and five months.

Amortisation is charged to administrative expenses in the Consolidated income statement.

The Company has no intangible assets.

Notes to the Financial Statements (continued)

15 PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land and buildings £m	Plant and equipment-owned £m	Plant and equipment-leased £m	Total £m
Cost				
At 1 April 2010	3.4	4.9	10.4	18.7
Additions	1.2	0.5	0.3	2.0
Acquisition of a subsidiary	0.3	0.7	–	1.0
Disposals	(1.0)	(0.3)	(9.4)	(10.7)
Foreign exchange	–	(0.1)	–	(0.1)
At 31 March 2011	3.9	5.7	1.3	10.9
Additions	**–**	**0.3**	**0.1**	**0.4**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 31 March 2012	**3.9**	**5.9**	**1.4**	**11.2**
Accumulated depreciation				
At 1 April 2010	1.7	3.5	9.7	14.9
Charge for year	0.4	0.7	0.5	1.6
Disposals	(1.0)	(0.3)	(9.4)	(10.7)
Foreign exchange	–	(0.1)	–	(0.1)
At 31 March 2011	1.1	3.8	0.8	5.7
Charge for year	**0.2**	**0.9**	**0.4**	**1.5**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 31 March 2012	**1.3**	**4.6**	**1.2**	**7.1**
Accumulated impairment				
At 1 April 2010	–	–	–	–
Impairment losses	0.8	–	–	0.8
At 31 March 2011	0.8	–	–	0.8
Impairment losses	**–**	**0.1**	**0.1**	**0.2**
At 31 March 2012	**0.8**	**0.1**	**0.1**	**1.0**
Net book value at 31 March 2012	**1.8**	**1.2**	**0.1**	**3.1**
Net book value at 31 March 2011	2.0	1.9	0.5	4.4
Net book value at 1 April 2010	1.7	1.4	0.7	3.8

The impairment losses of £0.2 million in the year ended 31 March 2012 relates to the impairment of assets in the US. The impairment of £0.8 million in the year ended 31 March 2011 relates to the New Street Square (NSS) onerous lease provision impairment of related assets.

Lease rentals of £5.3 million (2011: £5.8 million) and £nil (2011: £nil) relating to the lease of property and equipment, respectively, are included in the Consolidated income statement (note 7).

Depreciation expense of £1.4 million (2011: £1.5 million) has been charged to administrative expenses and £0.1 million (2011: £0.1 million) has been charged to cost of sales.

The Company has no property, plant and equipment.

Notes to the Financial Statements (continued)

16 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's various categories of financial instruments are as follows:

Group	Loans and receivables £m	Financial liabilities at fair value through profit or loss £m	Financial liabilities at amortised cost £m	Total £m
At 31 March 2012				
Net trade receivables	**13.8**	**–**	**–**	**13.8**
Receivables from long-term contracts	**13.3**	**–**	**–**	**13.3**
Cash and cash equivalents	**3.4**	**–**	**–**	**3.4**
Trade payables	**–**	**–**	**(6.3)**	**(6.3)**
Accruals – cash settled	**–**	**–**	**(9.3)**	**(9.3)**
Borrowings	**–**	**–**	**(39.8)**	**(39.8)**
Derivative financial instruments	**–**	**(0.5)**	**–**	**(0.5)**
Provision for vacant property leases	**–**	**–**	**(4.8)**	**(4.8)**
	30.5	**(0.5)**	**(60.2)**	**(30.2)**
At 31 March 2011				
Net trade receivables	14.1	–	–	14.1
Receivables from long-term contracts	15.8	–	–	15.8
Cash and cash equivalents	4.0	–	–	4.0
Trade payables	–	–	(10.4)	(10.4)
Accruals – cash settled	–	–	(11.3)	(11.3)
Borrowings	–	–	(32.3)	(32.3)
Derivative financial instruments	–	(0.3)	–	(0.3)
Provision for vacant property leases*	–	–	(0.9)	(0.9)
	33.9	(0.3)	(54.9)	(21.3)

*Restated

The carrying amounts of the Company's various categories of financial instruments are as follows:

Company	Loans and receivables £m	Financial liabilities at amortised cost £m	Total £m
At 31 March 2012			
Receivables from subsidiaries	**1.1**	**–**	**1.1**
Trade payables	**–**	**(0.4)**	**(0.4)**
Accruals – cash settled	**–**	**(0.3)**	**(0.3)**
Borrowings	**–**	**(6.7)**	**(6.7)**
	1.1	**(7.4)**	**(6.3)**
At 31 March 2011			
Receivables from subsidiaries	2.5	–	2.5
Payable to subsidiaries	–	(1.7)	(1.7)
Accruals – cash settled	–	(0.4)	(0.4)
Borrowings	–	(3.6)	(3.6)
	2.5	(5.7)	(3.2)

Fair value measurement

Financial instruments held at fair value are classified into one of three levels reflecting the significance of inputs used in measuring fair value. These are as follows:

Level 1: derived from unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: derived from other observable market data for the assets; and

Level 3: derived from valuation techniques using data that is not market data.

Based on the above the financial instruments measured at fair value through profit or loss are grouped into fair value hierarchies as liabilities of £0.5 million in Level 2 (2011: £0.3 million), being interest rate swaps.

The fair values of the Group's derivative contracts are calculated using observable market data, such as market exchange and interest rates obtained from the Group's bankers, and so are considered to fall into Level 2.

17 INVESTMENT IN SUBSIDIARIES

Company	Shares £m	Total investment in subsidiaries £m
Cost at 31 March 2011	69.0	69.0
Additions	0.1	0.1
Cost at 31 March 2012	**69.1**	**69.1**
Accumulated impairment at 31 March 2011	–	–
Impairment losses	31.6	31.6
Impairment at 31 March 2012	**31.6**	**31.6**
Net book value at 31 March 2012	**37.5**	**37.5**
Net book value at 31 March 2011	69.0	69.0

The impairment losses have arisen due to the poor trading performance in the US segment and follow on from the impairment to goodwill (note 13). The investments have been impaired to the fair value of the underlying post impairment net assets of the Company's immediate subsidiary.

Principal subsidiary undertakings as at 31 March 2012

Information has only been provided in relation to those subsidiaries whose results or financial position, in the opinion of the Directors, principally affected the Financial Statements.

Name	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group	Nature of business
AEA Technology plc	UK	Ordinary shares	100%	Technical energy and sustainability consultancy
Eastern Research Group Inc	US	Ordinary shares	100%	Technical energy and sustainability consultancy
Project Performance Corporation Inc	US	Ordinary shares	100%	Technical energy, sustainability and IT consultancy

All subsidiaries are included in the consolidated Financial Statements. All subsidiaries have an accounting year-end of 31 March.

Notes to the Financial Statements (continued)

18 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Non-current				
Receivables from subsidiaries	**–**	–	**–**	2.5
Loan to previous shareholders of ERG Inc	**–**	1.2	**–**	1.2
Other receivables	**0.1**	0.1	**–**	–
Non-current other receivables	**0.1**	1.3	**–**	3.7
Current				
Trade receivables	**14.8**	15.1	**–**	–
Less provision for impairment of receivables	**(1.0)**	(1.0)	**–**	–
Trade receivables – net	**13.8**	14.1	**–**	–
Receivables from long-term contracts	**13.3**	15.8	**–**	–
Prepayments	**1.4**	1.6	**–**	–
Receivables from subsidiaries	**–**	–	**1.1**	–
Other receivables	**0.1**	0.2	**0.2**	–
Current trade and other receivables	**28.6**	31.7	**1.3**	–
Total trade and other receivables	**28.7**	33.0	**1.3**	3.7

The fair values of trade and other receivables are not materially different to the book values above due to their short term nature. The majority (over 64%) of the Group's trade receivables relate to public sector organisations and hold a low credit risk. The remainder of the Group's trade receivables relate to numerous private sector customers and no customer accounts for more than 16.0% (2011: 12%) of the total gross trade receivables balance. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Therefore, no further credit risk provisions, over and above the provisions shown above, are deemed necessary. The Group does not hold any collateral as security.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Sterling	**8.8**	9.3	**1.3**	2.5
Euro	**0.5**	0.8	**–**	–
US Dollar	**19.4**	22.9	**–**	1.2
	28.7	33.0	**1.3**	3.7

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
At 1 April	**1.0**	0.5	**–**	–
Acquisition of a subsidiary	**–**	0.5	**–**	–
Provision for receivables impairment	**–**	0.1	**–**	–
Unused amounts reversed	**–**	(0.1)	**–**	–
At 31 March	**1.0**	1.0	**–**	–

The creation and release of provisions for impaired receivables have been included in administrative expenses.

The impairment provision is for individually impaired receivables of £1.0 million (2011: £1.0 million) included within trade receivables. The largest individual provision is in respect of an overseas debt relating to a discontinued business where recovery is still being pursued but is doubtful. In addition a provision of £0.5 million was recognised on the acquisition of ERG Inc in 2011. This was a fair value adjustment made to provide for some doubtful trade receivable balances.

Notes to the Financial Statements (continued)

The length of time past due of these receivables is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Three to six months	**–**	0.1	**–**	–
Six months to one year	**–**	0.2	**–**	–
Over one year	**1.0**	0.7	**–**	–
	1.0	1.0	**–**	–

As of 31 March 2012 trade receivables of £3.5 million (2011: £6.1 million) were past due but not impaired. These relate to numerous customers, none of who have a history of default with the Group. The ageing of these receivables is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Up to three months	**2.2**	5.1	**–**	–
Three to six months	**0.4**	0.2	**–**	–
Over six months	**0.9**	0.8	**–**	–
	3.5	6.1	**–**	–

The other classes of financial assets within trade and other receivables do not contain impaired assets.

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash at bank and in hand	**3.4**	4.0	**–**	–

The Company's bank accounts are held with Lloyds TSB Bank plc, which holds an A+ long-term rating with Standard & Poor's as at 31 March 2012.

Subsidiary UK bank accounts are also held with Lloyds TSB Bank plc.

Subsidiary overseas bank accounts are held mainly with TD Bank N.A. which holds an AA- long-term rating with Standard & Poor's as at 31 March 2012 and Eastern Bank.

The fair value of cash and cash equivalents is equal to the carrying value.

20 SHARE CAPITAL AND SHARE PREMIUM

Group	Number of shares millions	Ordinary shares £m	Share premium £m	Total £m
At 1 April 2010	228.8	2.3	11.7	14.0
Firm Placing, Placing and Open Offer	1,111.6	11.1	41.5	52.6
Consideration shares issued on acquisition of subsidiary	113.2	1.1	4.6	5.7
Capital reduction	–	–	(57.8)	(57.8)
At 1 April 2011 and **31 March 2012**	**1,453.6**	**14.5**	**–**	**14.5**

Company	Number of shares millions	Ordinary shares £m	Share premium £m	Total £m
On incorporation	–	–	–	–
Issue of shares on Scheme of Arrangement effective date	228.8	2.3	11.7	14.0
Firm Placing, Placing and Open Offer	1,111.6	11.1	41.5	52.6
Consideration shares issued on acquisition of subsidiary	113.2	1.1	4.6	5.7
Capital reduction	–	–	(57.8)	(57.8)
At 1 April 2011 and **31 March 2012**	**1,453.6**	**14.5**	**–**	**14.5**

The total authorised number of Ordinary shares is 5,000,000,000 shares with a par value of 1.0 pence per share. All issued shares are fully paid.

Notes to the Financial Statements (continued)

Share-based payments

When the Scheme of Arrangement became effective on 5 November 2010 share options granted to Directors and employees were exchanged on a one-for-one basis for share options in the Company with no change in any terms or conditions.

Employee share schemes – all employee share plans

The Group operates UK Save As You Earn ("SAYE") schemes whereby employees are given the opportunity to apply for options in Ordinary shares of the Company. Options are granted at a price 20% below the market price ruling at the date of grant. Grants are exercisable after three or five years of savings by the employees. All options will be equity settled.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Period of option	Expiry date	Number of shares 2012	Number of shares 2011	Exercise price per share Pence
1 April 2011 to 30 September 2011	30 September 2011	–	16,097	96.0
1 April 2011 to 30 September 2011	30 September 2011	–	115,843	70.0
1 April 2012 to 30 September 2012	30 September 2012	1,375,688	3,702,006	14.0
1 October 2014 to 1 April 2015	1 April 2015	12,522,657	–	2.7
		13,898,345	3,833,946	

Employee share schemes – discretionary share plans

The Group operates long-term incentive plans for senior managers and Directors. Details of the CSOP, the PSP and the LTIP are given below and in the Report on Directors' remuneration. All CSOP options will be equity settled. For the PSP scheme the exercise price is nil pence.

CSOP Scheme	Performance period	Expiry date	Outstanding options at 31 March 2012	Outstanding options at 31 March 2011	Option price Pence
2001	1 April 2001 to 31 March 2004	26 June 2011	–	181,965	296.5

PSP Scheme	Performance period	Expiry date	Outstanding options at 31 March 2012	Outstanding options at 31 March 2011	Option price Pence
2009	1 April 2009 to 31 March 2012	10 September 2012	1,301,674	1,533,626	nil
2009	1 April 2009 to 31 March 2012	16 January 2013	580,660	940,509	nil
			1,882,334	2,474,135	

LTIP Scheme	Performance period	Expiry date	Outstanding options at 31 March 2012	Outstanding options at 31 March 2011	Option price Pence
2011	28 July 2011 to 28 July 2016	28 July 2016	38,610,038	–	nil

Notes to the Financial Statements (continued)

Options outstanding – SAYE

	2012		2011	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
At 1 April	**3,833,946**	**16.0**	5,292,833	18.6
Granted in year	**14,327,655**	**2.7**	–	–
Exercised in year	**–**	**–**	(88,643)	14.0
Lapsed in year	**(785,504)**	**23.9**	(689,822)	35.7
Forfeited in year	**(3,477,752)**	**8.1**	(680,422)	16.0
At 31 March	**13,898,345**	**3.8**	3,833,946	16.0
Exercisable as at 31 March	**–**	**–**	–	–

The fair value of SAYE options granted during the year was 0.6 pence (2011: nil pence), as determined using the Black Scholes model. The inputs into the model for the SAYE scheme was as follows:

	2012
Weighted average share price at the grant date	**2.0p**
Exercise price	**2.7p**
Expected volatility	**66.0%**
Expected life	**3 years**
Risk free interest rate	**0.66%**
Expected dividend yield	**0.0%**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years.

Options outstanding – CSOP

	2012		2011	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
At 1 April	**181,965**	296.5	213,878	296.5
Lapsed in year	**(181,965)**	296.5	(31,913)	296.5
At 31 March	**–**	–	181,965	296.5
Exercisable as at 31 March	**–**	–	181,965	296.5

No CSOP options were exercised or granted during the years ended 31 March 2011 and 2012.

Options outstanding – PSP

	2012		2011	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
At 1 April	**2,474,135**	**nil**	3,280,745	nil
Lapsed in year	**(591,801)**	**nil**	(806,610)	nil
At 31 March	**1,882,334**	**nil**	2,474,135	nil
Exercisable as at 31 March	**–**	**–**	–	–

No PSP options were exercised or granted during the years ended 31 March 2011 and 2012.

Notes to the Financial Statements (continued)

Options outstanding – LTIP

	2012 Options Number	2012 Weighted average exercise price Pence	2011 Options Number	2011 Weighted average exercise price Pence
At 1 April	–	–	–	–
Granted in year	38,610,038	nil	–	–
At 31 March	**38,610,038**	**nil**	–	–
Exercisable as at 31 March	**–**	**–**	–	–

The fair value of LTIP options granted during the year was 1.7 pence as determined using a Monte Carlo simulation. The inputs into the model for the LTIP scheme were as follows:

	2012
Share price at the grant date	**3.2p**
Exercise price	**Nil**
Expected volatility	**66.0%**
Expected life	**3 years**
Risk free interest rate	**1.2%**
Expected dividend yield	**0.0%**

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

The Group recognised a credit to the income statement of £0.2 million (2011: charge of £0.4 million) related to equity-settled share based payment transactions.

21 OTHER RESERVES

Group	Share option reserve £m	Actuarial pension reserve £m	Currency translation reserve £m	Other (deficit)/ reserves £m	Merger reserve £m	Total reserves* £m
At 1 April 2010	2.3	(48.9)	1.8	(44.8)	82.0	37.2
Currency translation differences	–	–	(1.1)	(1.1)	–	(1.1)
Actuarial gains on defined benefit pension schemes	–	17.4	–	17.4	–	17.4
Fair value of share option schemes	0.4	–	–	0.4	–	0.4
At 31 March 2011	2.7	(31.5)	0.7	(28.1)	82.0	53.9
Currency translation differences	**–**	**–**	**0.1**	**0.1**	**–**	**0.1**
Actuarial losses on defined benefit pension schemes	**–**	**(46.7)**	**–**	**(46.7)**	**–**	**(46.7)**
Fair value of share option schemes	**(0.2)**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Transfer of balance related to expired share options	**(2.1)**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
At 31 March 2012	**0.4**	**(78.2)**	**0.8**	**(77.0)**	**82.0**	**5.0**

Company	Share option reserve £m	Total reserves* £m
On incorporation	–	–
Fair value of share option schemes	0.1	0.1
At 31 March 2011	0.1	0.1
Fair value of share option schemes	0.1	0.1
At 31 March 2012	**0.2**	**0.2**

*Excluding retained (deficit)/reserves

The share option reserve represents credits relating to equity settled share-based employee compensation plans. When the options are exercised the proceeds, net of attributable transaction costs, are credited to share capital and share premium. When options expire but are not exercised the credits are transferred to retained earnings/loss.

The actuarial pension reserve represents the actuarial gains and losses on defined benefit pension schemes.

The currency translation reserve represents the accumulated gains and losses recognised on translation of the net assets of foreign subsidiaries at the exchange rates ruling at the balance sheet date and the income statements at the average rate of exchange during the year. On disposal of foreign subsidiaries these gains or losses are recognised in the Consolidated income statement as part of the profit or loss on disposal.

The merger reserve was created with the issue of AEA Technology Group plc shares in November 2010.

Distributable reserves

The Company currently has £16.9 million (2011: £52.5 million) of distributable reserves. Distributable reserves comprise retained earnings and the share option reserve.

22 COMPANY PROFIT

As permitted by Jersey Law 1991 section 105 (11), the parent Company's income statement, and statement of comprehensive income has not been included. The result for the financial year of the Company was a loss of £35.7 million (2011: £4.5 million).

23 TRADE AND OTHER PAYABLES

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Non-current				
Other payables	**1.8**	1.7	**–**	1.2
Non-current other payables	**1.8**	1.7	**–**	1.2
Current				
Trade payables	**6.3**	10.4	**0.4**	–
Deferred income	**3.9**	4.2	**–**	–
Accruals	**11.4**	13.2	**0.3**	0.4
Payable to subsidiaries	**–**	–	**–**	0.5
Social security and tax	**2.1**	2.0	**–**	–
Other payables	**1.5**	2.2	**–**	–
Current trade and other payables	**25.2**	32.0	**0.7**	0.9
Total trade and other payables	**27.0**	33.7	**0.7**	2.1

The fair value of trade and other payables are not materially different to the carrying values above due to their short term nature.

A grant has been received in respect of the creation of jobs and capital expenditure at one of the Group's premises. During the year ended 31 March 2012 £nil was credited to income (2011: £0.1 million).

24 BORROWINGS

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Non-current borrowings				
Unsecured bank and other loans	**35.0**	30.0	**1.0**	3.0
Finance lease liabilities	**0.2**	0.2	**–**	–
Non-current borrowings	**35.2**	30.2	**1.0**	3.0
Current borrowings				
Unsecured bank and other loans	**4.3**	1.7	**5.7**	0.6
Finance lease liabilities	**0.3**	0.4	**–**	–
Current borrowings	**4.6**	2.1	**5.7**	0.6
Total borrowings	**39.8**	32.3	**6.7**	3.6

Notes to the Financial Statements (continued)

Maturity of total borrowings is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Within one year	**4.6**	2.1	**5.7**	0.6
Between one and two years	**35.2**	30.2	**1.0**	3.0
Total borrowings	**39.8**	32.3	**6.7**	3.6

The fair values of current and non-current borrowings are not materially different from the carrying values stated above.

Unsecured bank and other loans excluding finance leases

	Group		Company	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Bank debt – revolving credit facility	**40.1**	32.3	**6.7**	3.6
Capitalised loan arrangement fees	**(0.7)**	(0.6)	**–**	–
Revaluation of bank debt	**(0.1)**	–	**–**	–
Total non-current and current unsecured bank and other loans	**39.3**	31.7	**6.7**	3.6

Bank debt

At 31 March 2012 the Company had a £43.0 million loan facility agreement (the 'facility') with Lloyds TSB Bank plc (2011: £39.0 million). This facility was entered into in September 2011 for a period of three years (including an overdraft facility of £7.0 million) to manage periods of working capital fluctuation. Recent bank covenant tests have been postponed but the longer term borrowing facility in place at 31 March 2012 can now be removed by the Bank at short notice. The facility will mature in September 2014, save for the overdraft facility, which is renewable annually. Annual extensions are expected as the overdraft facility forms part of the revolving credit facility. Following the year end, the Group has obtained the Bank's agreement in principle on the terms for a new money facility to provide an additional facility of £5.0 million on a secured basis through to the end of October 2012. Entering into a formal facility agreement in respect of the additional £5.0 million short term facility will be conditional upon the Group providing security and an ongoing liquidity covenant.

The facility is denominated in Sterling, although borrowings under the facility are in Sterling and US Dollars. The utilised amounts bear interest at LIBOR plus 3.5% or US Dollar-LIBOR plus 3.5%. The agreement contains financial covenants in relation to the ratio of net borrowings to PBITDA and the ratio of PBITDA to net interest payable.

The same bank also provides a £4.0 million bonding facility.

At 31 March the following amounts were outstanding under the facility:

	2012			2011		
	Available	**Utilised**	**Unutilised**	Available	Utilised	Unutilised
	£m	**£m**	**£m**	£m	£m	£m
Bank debt – revolving credit facility	**43.0**	**40.1**	**2.9**	39.0	32.3	6.7

Obligations under finance leases – gross

	Minimum lease payments	
	2012	2011
Amounts payable under finance leases	**£m**	£m
Within one year	**0.3**	0.4
Between one and five years	**0.2**	0.2
	0.5	0.6
Less: future finance charges	**–**	–
Present value of lease obligations	**0.5**	0.6

Obligations under finance leases – present value

Amounts payable under finance leases	Present value of minimum lease payments 2012 £m	2011 £m
Within one year	**0.3**	0.4
Between one and five years	**0.2**	0.2
	0.5	0.6
Less: amount due for settlement within one year (shown under current borrowings)	**(0.3)**	(0.4)
Amount due for settlement after one year	**0.2**	0.2

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years. Interest rates are fixed at the contract date. Leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

Currency and interest rate analysis

The currency and interest rate analysis of the Group's borrowings is as follows:

	Total £m	Interest free £m	Floating rate £m	Fixed rate £m	Fixed interest rate %	Time fixed Years
At 31 March 2012						
Sterling	**29.0**	**–**	**28.7**	**0.3**	**6%**	**0-3 years**
US Dollar	**10.8**	**–**	**10.6**	**0.2**	**5%**	**0-3 years**
Total	**39.8**	**–**	**39.3**	**0.5**	**5% to 6%**	**0-3 years**
At 31 March 2011						
Sterling	21.7	–	21.1	0.6	1% to 4%	0-3 years
US Dollar	10.6	–	10.6	–	–	–
Total	32.3	–	31.7	0.6	1% to 4%	0-3 years

The loan facility held by the Group allows certain cash balances held to be set off against gross borrowings.

Exposure to variable interest rates on floating rate borrowings are hedged through the use of interest rate swaps (see note 25 for further details).

25 DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are as follows:

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Interest rate swaps	**0.5**	0.3	**–**	–

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The notional amount of the outstanding interest rate swap contract as at 31 March 2012 is $37.0 million (2011: $20.0 million). The fixed interest payment rates are 1.485% (2011: 1.85% and 1.94%). The floating rate receipts are at LIBOR.

The fair values of interest rate swaps are based on market estimates of equivalent instruments at the balance sheet date. These interest rate swaps are accounted for at fair value through the Consolidated income statement. An amount of £0.2 million (2011: £0.1 million) has been charged to finance costs (note 10).

The net amount expected to be paid over the remaining duration of the interest rate swap is £0.5 million (2011: £0.3 million). The interest rate swap expires on 30 September 2014.

Notes to the Financial Statements (continued)

26 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

In Europe, AEA Technology plc and AEA Technology Group plc jointly operate a defined contribution stakeholder plan (the "UK Plan") for all qualifying employees. Participants may make voluntary contributions to the UK Plan up to the maximum amount allowable by UK law. The assets of the UK Plan are held separately from those of both AEA Technology plc and AEA Technology Group plc in individual accounts under the control of the pension provider. The only obligation of AEA Technology plc and AEA Technology Group plc with respect to the UK Plan is to make the specified contributions.

The US subsidiaries, Project Performance Corporation and ERG Inc, operate defined contribution 401(K) profit sharing plans (the "US Plans") for all eligible employees. Participants may make voluntary contributions to the US Plans up to the maximum amount allowable by US law. Employer contributions to the US Plans are at the discretion of management and vest to the participants over a five-year period. The assets of the US Plan are held separately from those of both Project Performance Corporation and ERG Inc in funds under the control of trustees and insurance companies. The only obligation of Project Performance Corporation and ERG Inc with respect to the US Plans is to make the specified contributions.

Neither Project Performance Corporation nor ERG Inc have further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as assets to the extent that a cash refund or reduction of future payment is available.

The total cost charged to the income statement of £3.4 million (2011: £3.2 million) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit schemes – funded obligations

The AEA Technology plc Pension Scheme (the "Scheme"), a defined benefit pension scheme, was closed to future accrual on 31 July 2009 and no further benefits will be built up with effect from that date.

The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by the Scheme actuary. The calculations for the Scheme are based on the liabilities determined at the funding valuation as at 31 March 2008 in accordance with the requirements of the Pensions Act 2004. Based on the schedule of contributions agreed by AEA Technology plc and Trustee in June 2009, the Scheme's past service funding deficit was expected to be cleared over approximately 20 years. The Company is in discussions with the Trustee to agree a revised schedule of contributions. These discussions have not yet produced an agreed outcome and the discussions continue. The tri-annual funding valuation of the Scheme as at 31 March 2011 is currently being undertaken in accordance with the requirements of the Pensions Act 2004.

International Accounting Standard 19 'Employee Benefits' (IAS 19) requires the Group to include in the Balance sheet the surplus or deficit on the Scheme calculated as at the balance sheet date. The method used for the calculation is as prescribed by IAS 19. It is a snapshot view that can be significantly influenced by short-term market factors. The calculation of the surplus or deficit is, therefore, dependent on factors which are beyond the control of the Group – principally the value at the balance sheet date of the assets in which the Scheme has invested and long-term interest rates, which are used to discount future liabilities.

AEA Technology plc's actuaries (the "Actuaries") Aon Hewitt Associates Limited, carried out the valuation. The results are then adjusted by the Actuaries each year, allowing for the IAS 19 financial and demographic assumptions and rolling forward the liabilities to the balance sheet date.

AEA Technology plc employs a building block approach in determining the long-term rate of return on pension scheme assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall long-term expected rate of return on assets at 31 March 2012 and 31 March 2011 is derived by modelling the expected returns on the agreed strategic asset allocation at the start of the accounting year, taking into account the interactions between asset classes to derive an expected return for the portfolio as a whole.

The estimated amount of contributions expected to be paid to the Scheme during the financial year to 31 March 2013 was £5.9 million. In addition AEA Technology plc pays a contribution equal to the Pension Protection Fund levy, which for the year to 31 March 2012 amounted to £0.2 million (2011: £0.6 million). As noted above, the Company is in discussions with the Trustee to agree a revised schedule of contributions. These discussions have not yet produced an agreed outcome and the discussions continue. As disclosed in note 2, the Trustee has agreed to defer all pension payments from July 2012 onwards while these discussions continue.

As at 31 March 2012 contributions of £nil (2011: £nil) due in respect of the year to 31 March have not been paid over to the Scheme.

Defined benefit schemes – unfunded obligations

In Europe AEA Technology plc operates a formal, employer financed retirement benefit scheme to provide benefits in excess of the HMRC earnings cap for a former director and also has unfunded top-up arrangements in place to provide benefits to certain former directors and employees (the Unfunded Company Scheme).

Notes to the Financial Statements (continued)

The value of the pensions reserve required to be recognised under IAS 19 is calculated by the Actuaries using the same assumptions as used for the Scheme, with the exception of post-retirement mortality. The post-retirement mortality assumption, given within this note, adopted for the unapproved reserves is less pessimistic than that adopted for the mixed population of the Scheme. This reflects the lower mortality rates typically experienced by individuals with above average levels of personal wealth.

Pension benefits

The amounts recognised in the Consolidated income statement and the Group Balance sheet in respect of the defined benefit scheme are summarised as follows:

	2012 £m	2011 £m
Balance sheet obligation for pension benefits	**168.5**	121.8
Income statement charge for pension benefits	**2.0**	1.9

The amounts recognised in the balance sheet are determined as follows:

	2012 £m	2011 £m
Present value of funded obligations	**450.9**	406.0
Fair value of defined benefit pension scheme assets	**(286.4)**	(287.8)
Retirement benefit obligations of the Scheme	**164.5**	118.2
Present value of unfunded obligations	**4.0**	3.6
Retirement benefit obligations	**168.5**	121.8

The amounts recognised in the Consolidated income statement are as follows:

	2012 £m	2011 £m
Curtailment gains	**–**	(0.1)
Net pension credit	**–**	(0.1)
Accretion of discount on defined benefit pension scheme obligations	**22.6**	23.2
Expected return on defined benefit pension scheme assets	**(20.6)**	(21.2)
Amount included in employee benefit costs	**2.0**	1.9

The net pension credit in 2010/11 results from a curtailment credit arising on the cessation of benefits payable to one individual in the unfunded scheme.

The accretion of discount on defined benefit pension scheme obligations of £22.6 million (2011: £23.2 million) and the expected return on defined benefit pension scheme assets of £20.6 million (2011: £21.2 million) are included in 'finance costs' and 'finance income' respectively. The total of the expected return on defined benefit pension scheme assets (£20.6 million) and the actuarial loss on defined benefit pension scheme assets (£11.8 million that is debited to the pension reserve) equates to an actual gain on defined benefit pension scheme assets of £8.8 million (2011: £15.4 million).

The movement in the pension obligation recognised in the Group balance sheet is as follows:

	Funded Company Scheme £m	Unfunded Company Scheme £m	2012 £m	Funded Company Scheme £m	Unfunded Company Scheme £m	2011 £m
At 1 April	**406.0**	**3.6**	**409.6**	416.4	3.9	420.3
Accretion of discount on defined benefit obligations	**22.4**	**0.2**	**22.6**	23.0	0.2	23.2
Curtailment gains	**–**	**–**	**–**	–	(0.1)	(0.1)
Actuarial losses/(gains)	**34.5**	**0.4**	**34.9**	(23.1)	(0.1)	(23.2)
Benefits paid	**(12.0)**	**(0.2)**	**(12.2)**	(10.3)	(0.3)	(10.6)
At 31 March	**450.9**	**4.0**	**454.9**	406.0	3.6	409.6

Notes to the Financial Statements (continued)

The movement in the pension asset recognised in the Group balance sheet is as follows:

	Funded Company Scheme £m	**Unfunded Company Scheme £m**	**2012 £m**	Funded Company Scheme £m	Unfunded Company Scheme £m	2011 £m
At 1 April	**287.8**	**–**	**287.8**	280.5	–	280.5
Expected return on defined benefit pension scheme assets	**20.6**	**–**	**20.6**	21.2	–	21.2
Actuarial losses	**(11.8)**	**–**	**(11.8)**	(5.8)	–	(5.8)
Contributions paid by employer	**1.8**	**–**	**1.8**	2.2	–	2.2
Benefits paid	**(12.0)**	**–**	**(12.0)**	(10.3)	–	(10.3)
At 31 March	**286.4**	**–**	**286.4**	287.8	–	287.8

The net pension obligation is as follows:

	Total £m
At 31 March 2012	**168.5**
At 31 March 2011	121.8

A £46.7 million loss (2011: £17.4 million gain) in respect of actuarial gains and losses is reported in the Consolidated statement of comprehensive income (SOCI) and the cumulative total of actuarial losses and gains reported through the SOCI is a net £78.2 million loss (2011: £31.5 million).

The principal actuarial assumptions used are as follows:

	2012 %	2011 %
Discount rate	**4.8**	5.6
RPI inflation	**3.3**	3.4
CPI inflation	**2.3**	2.5
Expected return on plan assets:		
equities	**8.0**	8.3
corporate bonds	**4.8**	5.6
infrastructure	**8.0**	8.3
property	**7.7**	8.0
other	**1.0**	0.8
Future salary increases	**n/a**	n/a
Future pension increases	**n/a**	n/a

The discount rate is based on future projected cash flows and the AA-corporate bond yield curve as at 31 March 2012, with an adjustment so that the yield relates to bonds that were AA-rated as at 31 March 2012. The assumed rate of inflation has been calculated based on future projected cash flows and the inflation curve as at 31 March 2012, with an allowance for an inflation risk premium.

The expected rates of return on categories of the Scheme assets are determined using a building block approach. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted market principles.

Notes to the Financial Statements (continued)

Post-retirement mortality assumptions are as follows:

	2012	2011
Funded Company Scheme	**"S1PxA" Year of Use tables. Improvements in line with the 'CMI_2010' Core Projections, with a long term rate of improvements of 1.0% per annum. Scaling factor of 100%.**	"S1PxA" Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. Scaling factor of 95%.
Unfunded Company Scheme	**"S1PxA Light" Year of Use tables. Improvements in line with the 'CMI_2010' Core Projections, with a long term rate of improvements of 1.0% per annum. Scaling factor of 100%.**	"S1PxA Light" Year of Use tables. Improvements in line with 80% of the Long Cohort for males and 60% of the Long Cohort for females, subject to a minimum annual improvement of 1.0%. No scaling factor.

Demographic assumptions (post-retirement mortality)

Based on the mortality assumptions adopted, the following table shows the expected future lifetime of a Scheme member on retirement at age 60:

	2012 Years	2011 Years
Males retiring today	**26.7**	27.1
Females retiring today	**29.0**	29.1
Males retiring in 20 years	**28.3**	29.2
Females retiring in 20 years	**30.7**	31.0

Sensitivity analysis of the principal assumptions used to measure Scheme liabilities

Assumption	**Change in assumption**	**Impact on Scheme liabilities**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 9%
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 8%
Rate of mortality	Increase by 1 year	Increase/decrease by 3%

The analysis of the Scheme assets and expected rate of return at 31 March is as follows:

	Expected return		**Fair value of assets**	
	2012 %	2011 %	**2012 £m**	2011 £m
Equity instruments	**7.0**	8.3	**145.2**	147.1
Corporate bonds	**4.8**	5.6	**80.1**	67.6
Infrastructure	**7.0**	8.3	**29.6**	27.2
Property	**6.7**	8.0	**22.2**	16.8
Other assets	**1.0**	0.8	**9.3**	29.1
			286.4	287.8

The five-year history of defined benefit pension scheme obligations and defined benefit pension scheme assets is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**454.9**	409.6	420.3	313.7	318.4
Fair value of defined benefit pension scheme assets	**(286.4)**	(287.8)	(280.5)	(205.5)	(258.4)
Retirement benefit obligation	**168.5**	121.8	139.8	108.2	60.0

Notes to the Financial Statements (continued)

The five-year history of experience adjustments is as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience (losses)/gains on defined benefit scheme obligations					
Amount (£ million)	**(34.9)**	23.2	(95.9)	15.0	57.6
Percentage of Scheme liabilities	**8.5%**	5.6%	22.8%	4.8%	18.1%
Experience (losses)/gains on defined benefit pension scheme assets					
Amount (£ million)	**(11.8)**	(5.8)	67.3	(68.4)	(27.3)
Percentage of Scheme assets	**4.1%**	2.0%	24.0%	33.3%	10.6%

Development of net retirement benefit obligation over the year to 31 March 2012

The pension cost recognised in the Consolidated income statement is calculated based on assumptions made at the beginning of the year. If experience over the year is in line with the assumptions made at the start of the year, the retirement benefit obligation would reduce by the excess of the cash contributions made over the income statement charge. Actuarial gains and losses due to differences between actual experience and the assumptions made at the start of the year are recognised in full in the SOCI.

27 PROVISIONS FOR LIABILITIES AND CHARGES

Group	**Decommissioning and waste management £m**	**Restructuring £m**	**Contracts £m**	**Other £m**	**Total £m**
At 1 April 2010	4.1	2.9	1.2	1.6	9.8
Utilised	(3.9)	(1.1)	(0.6)	(0.5)	(6.1)
Balance sheet reclassification	–	(0.6)	0.6	–	–
Increase in provision	–	–	1.0	0.3	1.3
Money received in respect of leasehold obligation	–	–	0.8	–	0.8
Acquisition of subsidiary	–	–	0.2	–	0.2
At 31 March 2011	0.2	1.2	3.2	1.4	6.0
Utilised	**–**	**(0.3)**	**(0.7)**	**–**	**(1.0)**
Release of provision	**–**	**(0.1)**	**(0.1)**	**–**	**(0.2)**
Increase in provision	**–**	**–**	**4.6**	**–**	**4.6**
At 31 March 2012	**0.2**	**0.8**	**7.0**	**1.4**	**9.4**

	Group		**Company**	
Provisions for liabilities and charges	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Current	**3.5**	1.3	**–**	–
Non-current	**5.9**	4.7	**–**	–
	9.4	6.0	**–**	–

Provisions for liabilities and charges comprise both legacy and continuing provisions. Legacy provisions relate to potential costs that result from businesses that have either been discontinued or sold by the Group.

Decommissioning and waste management

On 31 March 1996 certain properties, rights and liabilities of UKAEA were vested in AEA Technology plc in accordance with the Transfer Scheme made pursuant to section 1 of the Atomic Energy Authority Act 1995.

A supplemental agreement entered into pursuant to the Transfer Scheme provides that liabilities for decommissioning any nuclear facility in existence as at 31 March 1996 and for any waste transferred to UKAEA ("the Authority") for disposal prior to 31 March 1996 are to remain with the Authority. All new or incremental decommissioning, waste management and clean up liabilities arising after 1 April 1996 were assumed by the Group except for certain liabilities, which have been transferred to, or assumed by, third parties.

Provisions for these costs were made in full once facilities became contaminated and were calculated on the latest technical assessments of the processes and methods likely to be used in the future and represent estimates derived from a combination of the technical knowledge available, existing legislation and regulations and commercial agreements. The principal liabilities are now settled.

These provisions are expected to be utilised within the next one to two years.

Restructuring

In the two years to 31 March 2007 the Group completed the transformation of its business from a diverse Group to a single mission Group focused on climate change and energy consultancy. Provisions related to this restructuring are held for associated warranties and indemnities given under business sale agreements. These provisions are expected to be utilised within the next one to two years.

Contracts

Contract provisions are in respect of projected losses or commitments on long-term contracts, notably onerous property lease contracts. These provisions will be utilised when the costs are incurred on the long-term contracts. Where future cash flows can be predicted with reasonable certainty a discount factor has been applied to the calculation of the carrying value of the provision. Where cash flows cannot be predicted with reasonable certainty then a discount rate has not been applied. The increase in the provision during the year relates to providing for onerous leases in both the UK and the US following a review of property requirements across the Group. These provisions are expected to be utilised within the remaining terms of the leases to which the provisions relate.

Other

The remainder of the provisions are primarily dilapidations and wear and tear provisions on the Group's property assets. These provisions will be utilised as dilapidation repairs are carried out. These provisions are expected to be utilised within the remaining terms of the leases to which the provisions relate.

28 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax jurisdiction. The offset amounts are as follows:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Deferred income tax assets recoverable within one year	**0.6**	1.1	**–**	–
Deferred income tax assets recoverable after one year	**1.0**	1.2	**–**	–
	1.6	2.3	**–**	–
Deferred income tax liabilities recoverable within one year	**(0.3)**	(0.3)	**–**	–
Deferred income tax liabilities recoverable after one year	**(0.5)**	(0.9)	**–**	–
	(0.8)	(1.2)	**–**	–
Deferred income tax assets (net)	**0.8**	1.1	**–**	–

The gross movement on the net deferred income tax asset is as follows:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
At 1 April	**1.1**	4.3	**–**	–
Consolidated income statement charge for year	**(0.3)**	(3.4)	**–**	–
Foreign exchange	**–**	0.2	**–**	–
At 31 March	**0.8**	1.1	**–**	–

The movement in deferred income tax liabilities and assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities **Group**	**Fair value of intangibles £m**	**Other £m**	**Total £m**
At 1 April 2010	(1.7)	(1.9)	(3.6)
Credited to the Consolidated income statement	0.2	0.8	1.0
Exchange differences	0.2	0.4	0.6
At 31 March 2011	(1.3)	(0.7)	(2.0)
Charged to the Consolidated income statement	**0.4**	**0.5**	**0.9**
At 31 March 2012	**(0.9)**	**(0.2)**	**(1.1)**

Notes to the Financial Statements (continued)

Deferred income tax assets

Group	Provisions £m	Tax losses £m	Other £m	Total £m
At 1 April 2010	1.2	5.3	1.4	7.9
Charged to the Consolidated income statement	(0.6)	(3.6)	(0.2)	(4.4)
Exchange differences	–	(0.3)	(0.1)	(0.4)
At 31 March 2011	0.6	1.4	1.1	3.1
Charged to the Consolidated income statement	**–**	**(1.1)**	**(0.1)**	**(1.2)**
At 31 March 2012	**0.6**	**0.3**	**1.0**	**1.9**

Deferred income tax assets

Company	Provisions £m	Tax losses £m	Other £m	Total £m
Charged to the income statement	–	–	–	–
At 31 March 2012	**–**	**–**	**–**	**–**

Other deferred tax balances relate to accrued vacation, deferred rent and other balances where there is a future tax benefit or liability at the balance sheet date.

Deferred income tax assets are recognised for tax losses carried forward and other timing differences to the extent that the realisation of the related tax benefit through utilisation against future taxable profits is probable. The Group has not recognised deferred tax assets of £68.8 million (2011: £56.5 million), of which £40.4 million related to the pension liability (2011: £31.6 million). Total UK tax losses carried forward amount to £98.7 million (2011: £96.3 million). Non-UK tax losses carried forward amount to £1.7 million (2011: £nil).

Company tax losses of £3.1 million (2011: £nil) were carried forward at 31 March 2012. The Company had an unrecognised deferred tax asset of £0.8 million at 31 March 2012 (2011: £nil).

Reductions to the UK corporation tax were announced in the March 2012 Budget. The change to the UK corporation tax rate was a reduction from 26% to 24% on 1 April 2012. This change to 24% has been substantively enacted at the Balance sheet date and therefore recognised in these financial statements. The decrease in UK corporation tax rate to 23% from 1 April 2013 and a further decrease to 22% are not expected to be substantively enacted until future Finance Bills are approved. These reductions have therefore not been taken into account when calculating deferred tax assets and liabilities at the Balance sheet date.

29 CASH (USED IN)/GENERATED FROM OPERATIONS

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Loss for the year	**(40.4)**	(14.0)	**(35.7)**	(4.5)
Adjustments for:				
tax	**0.3**	4.3	**–**	–
depreciation of property, plant and equipment	**1.5**	1.6	**–**	–
amortisation	**1.9**	1.5	**–**	–
impairment losses	**29.0**	0.8	**35.0**	–
share option (credit)/charge	**(0.2)**	0.4	**–**	–
finance costs	**25.3**	25.1	**0.2**	–
finance income	**(20.6)**	(21.2)	**(0.2)**	–
dividend income	**–**	–	**(2.4)**	–
other	**0.2**	0.6	**–**	–
Changes in working capital:				
work in progress	**–**	0.3	**–**	–
trade and other receivables	**3.1**	4.5	**–**	–
trade and other payables	**(5.8)**	(1.0)	**0.1**	0.4
inter-Company balances	**–**	–	**(0.5)**	0.4
Changes in retirement benefit obligations	**(2.0)**	(2.8)	**–**	–
Changes in provisions for liabilities and charges	**3.4**	(4.0)	**–**	–
Cash used in operations	**(4.3)**	(3.9)	**(3.5)**	(3.7)

30 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of contracts entered into in the normal course of business and in respect of the disposal of businesses and subsidiaries in prior years. It is not expected that these will have a material effect on the financial position of the Group.

31 OPERATING LEASE COMMITMENTS

The Group leases various offices under non-cancellable operating leases. The remaining lease terms are between one month and eight years. The Group also leases various items of plant and equipment under operating leases. The total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2012	2011
Operating lease commitments as lessee	**£m**	£m
Within one year	**5.7**	5.7
Between one and five years	**14.7**	18.6
After five years	**0.4**	1.6
	20.8	25.9

At the balance sheet date the Group had contracted with tenants for the following future minimum sub-lease payments:

	Group	
	2012	2011
Operating lease commitments as sub-lessor	**£m**	£m
Within one year	**0.4**	0.4
Between one and five years	**0.5**	0.4
After five years	**0.2**	0.3
	1.1	1.1

32 TRANSACTIONS WITH GOVERNMENT DEPARTMENTS AND OTHER PUBLIC BODIES

Revenue and cost of sales exclude reimbursements and the related payments made in respect of certain contracts with various Government departments (predominantly the Department of Energy and Climate Change, the Department for Transport, the Welsh Assembly Government and other public bodies such as the South West Regional Development Agency). Under the terms of these agreements, the Group receives funding in respect of certain programmes and pays such moneys directly to third parties in connection with work carried out under these programmes. The Group does not make any profit or loss directly from these contract payments. The values of payments made and received under these programmes was £21.6 million and £17.4 million respectively (2011: £42.6 million and £38.5 million respectively). Amounts received that have not yet been paid out are held in bank accounts not belonging to the Group and not consolidated within Group assets.

33 RELATED PARTIES

The Group has no sales or purchases of services from related parties in the years ended 31 March 2012 and 31 March 2011.

	Group		Company	
	2012	2011	**2012**	2011
Key management compensation	**£m**	£m	**£m**	£m
Short term employee benefits	**1.6**	1.5	**0.3**	0.1
Post employment benefits	**–**	0.5	**–**	–
Share-based payments	**0.1**	0.2	**–**	–
Termination benefits	**0.8**	–	**–**	–
	2.7	2.2	**0.3**	0.1

Key management are Directors (both Executive and NED) and other key managers with the authority and responsibility to control, direct or plan the activities of the Group.

The Group has no receivables from or payables to related parties as at 31 March 2012 or 31 March 2011.

During the year ended 31 March 2012 the Company purchased services from other Group companies for £0.6 million (2011: £nil). These purchases were made during the general course of trading. The Company paid interest to other Group companies of £0.1 million (2011: £nil) and received interest of £0.2 million from other Group companies (2011: £nil). As at 31 March 2012 the Company owed other Group companies £nil related to loans (2011: £1.2 million) and amounts payable to subsidiaries of £nil (2011: £0.5 million). At that date Group companies owed the Company

Notes to the Financial Statements (continued)

£4.5 million related to loans (31 March 2011: £2.5 million) against which there has been a fair value impairment of £3.4 million. Interest arising on the loan of £3.4 million is at a fixed rate of 6%, and on the balance of £1.1 million the interest is based on LIBOR with an appropriate margin. No guarantees have been given or received.

34 POST BALANCE SHEET EVENTS

There were no post Balance sheet events.

Additional information

Five year summary

Continuing and discontinued operations	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Revenue	**110.3**	113.7	113.2	93.7	80.9
Operating (loss)/profit	**(35.4)**	(5.9)	10.4	10.4	9.9
Adjusted operating profit [1]	**4.1**	8.8	12.4	12.0	11.0
(Loss)/profit before tax	**(40.1)**	(9.7)	3.5	7.5	8.0
Adjusted profit before tax [2]	**1.4**	7.0	11.0	10.6	9.4
(Loss)/profit attributable to owners of the Company	**(40.4)**	(14.0)	3.3	7.0	8.5
Net liabilities	**(157.3)**	(70.1)	(130.2)	(104.4)	(99.2)
Basic (loss)/earnings per share (pence) [3]	**(2.8)p**	(1.2)p	0.3p	0.7p	0.9p
Adjusted earnings per share (pence) [3, 4]	**0.0p**	0.0p	1.0p	1.0p	1.1p

1 Adjusted operating profit is reported operating profit, for continuing operations only, excluding amortisation of acquired intangibles, impairment of goodwill and certain significant items.

2 Adjusted profit before tax is reported profit before tax, for continuing operations only, excluding amortisation of acquired intangibles, impairment of goodwill, certain other significant items and net pension finance costs.

3 Basic and adjusted earnings per share figures for 2008 reflect the impact on numbers of shares in issue due to the Rights issue in August 2008. Figures for 2010 and prior years have been restated to reflect the impact on numbers of shares in issue due to the Firm Placing, Placing and Open Offer in November 2010.

4 Adjusted earnings per share is calculated using earnings adjusted for continuing operations. See note 12 for details of the adjusted earnings per share calculation.

Shareholders' information

Shares as at 31 March 2012 (in total)	Number of shareholders	Percentage of total shareholders	Percentage of Ordinary shares
1 – 100	1,697	25.98%	0.00%
101 – 1,000	3,082	47.18%	0.09%
1,001 – 5,000	1,082	16.57%	0.16%
5,001 – 50,000	411	6.29%	0.43%
50,001 – 100,000	53	0.81%	0.30%
Over 100,000	207	3.17%	99.02%
Totals	**6,532**	**100.00%**	**100.00%**

Financial Calendar

Financial year end	31 March
Interim management statement	August 2012
2012 Annual general meeting	September 2012
2013 Half-year results announcement	November 2012
Interim management statement	January/February 2013
2013 Preliminary results announcement	June/July 2013

Shareholder contact

If you have any general comments or queries you are welcome to write to the Company Secretary, Marble Arch Tower, 14th Floor, 55 Bryanston Street, London, W1H 7AA. If you have a query for a specific Director please write to them at the same address.

Registrar services

If you have an administrative query about your shareholding (such as details of previous dividend payments, recording a change of address, or reporting the loss of a share certificate), please direct these to Equiniti, either in writing to them at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by telephoning +44 (0) 871 384 2354* or via their textphone number, UK only, 0871 384 2255*. If you are dialling from outside the UK please telephone on +44 (0)121 415 7047.

You can now find a number of shareholder services on-line. The portfolio service from Equiniti gives you access to more information on your investments including balance movements, indicative share prices and information on recent dividends. For more details on this and practical help on transferring shares or updating your details, please visit www.shareview.co.uk. This also gives you the opportunity to register an interest in receiving information from the Company electronically.

Amalgamation of shareholdings

If you have received more than one copy of this report your shareholding may be registered under two or more shareholder reference numbers. Please contact Equiniti to amalgamate these accounts.

CREST

The Company's shares are available for electronic settlement by CREST. If you would like to find out more about the CREST settlement system please contact Equiniti for an information leaflet.

Individual savings account (ISA)

AEA has a Company sponsored ISA enabling shareholders to hold AEA Technology Group plc shares in a tax advantageous manner. Dividends will attract the basic rate of income tax only, any profits should you later sell some or all of your investment are exempt from capital gains tax and you do not need to show details of your ISA on your tax return. For details please contact the Equiniti ISA Team at the address given above or telephone +44 (0) 871 384 2244.*

ShareGift

Shareholders who only have a small number of shares whose market value makes selling uneconomic may wish to consider donating them to charity through ShareGift, an independent charity share donation scheme. ShareGift is administered by the Orr Mackintosh Foundation, registered charity number 1052686. Further information may be obtained on +44 (0) 207 828 1151 or from www.sharegift.org

* Calls to this number cost 8p per minute from a BT landline, other telephone providers' costs may vary. Lines are open from 8.30 a.m. to 5.30 p.m., Monday to Friday.

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